HUNTINGDON
Real Estate Investment Trust

2007 ANNUAL REPORT

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Unitholder Returns

	Year Ended December 31, 2007	Year Ended December 31, 2006
Distribution per unit	$0.28	$0.28
Opening unit price	$2.30	$2.75
Closing unit price	$2.30	$2.30
Annualized yield on opening price (distribution/opening unit price)	12.2%	10.2%
Projected cash distribution - 2008:	$0.28	
Closing unit price - March 19, 2008	$2.15	
Annualized current yield:	13.0%	

PRESIDENT'S MESSAGE

In 2007, HREIT completed the third year of its initial growth phase and achieved progress toward its primary investment goal of creating a large diversified portfolio of quality commercial properties. After completing 2006 with approximately $140 Million in new property acquisitions, HREIT followed up with over $100 Million of additional property acquisitions in 2007 and invested approximately $20 Million in comprehensive leasehold and property improvement programs. The ongoing growth in the asset base of the Trust and the focus on value-added capital improvements is reflected in the revenue, NOI and cash flow increases in 2007, as compared to 2006 are as follows:

- Total revenue increased by approximately $18 Million or 32%.
- NOI increased by approximately $11 Million or 34%.
- Funds from Operations increased by approximately $2.3 Million or 16% ($0.02 and 9% on a per unit basis).
- Distributable income increased by approximately $3.7 Million or 25% ($0.038 or 17% on a per unit basis).

The operational performance of the property portfolio in 2007 reflected an increase in "same property" NOI by 3%*, compared to 2006, and with the overall occupancy level of the portfolio remaining relatively constant at 93% in 2007, compared to 94% in 2006.

The rapid growth of the HREIT property portfolio over the past three years has, in large part, been fuelled by investment capital raised from the issuance of trust units and convertible debentures. To a significant extent, the income returns on new property acquisitions and capital expenditures have lagged behind the cost of the investment capital. In 2007, there was also a very substantial improvement in this variance, with the increase in distributable income out-pacing the increase in distributions paid by approximately $2.4 Million, resulting in a distribution payout ratio of 110% for the year.

During 2008 and 2009, HREIT will experience revenue and earnings increases from properties which were extensively redeveloped in 2007 and as a result of higher rental rates on renewed and new leases.

In January 2008, HREIT also welcomed three new members to its Board of Trustees. The management team of Shelter Canadian Properties Limited and the new Board of Trustees have initiated a strategic review process aimed at enhancing the market trading price of the units to more closely reflect the underlying value of HREIT's assets. As always, we remain fully committed to the long-term success of the Trust.

HUNTINGDON REAL ESTATE INVESTMENT TRUST

A.C. Thorsteinson

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
March 19, 2008

* Excludes Portage Place as the property completed a major redevelopment program in 2007.

Real Estate Portfolio - December 31, 2007

Property	Location	Purchase Price (1)	Acquisition Date	Leasable Area (Sq. Ft.) (2)	Occupancy 12/31/07
Light Industrial					
1935 Sargent Ave. (2)	Winnipeg, MB	$ 8,130,000	February 2005	113,864	100 %
130 Lowson Cres.	Winnipeg, MB	1,650,000	March 2005	25,672	100 %
891/895 Century St.	Winnipeg, MB	1,650,000	April 2005	51,835	90 %
119/130 Plymouth (4)	Winnipeg, MB	1,900,000	May 2005	43,364	100 %
1300 Church Ave.	Winnipeg, MB	1,250,000	May 2005	40,602	100 %
110 Lowson Cres.	Winnipeg, MB	2,800,000	May 2005	60,903	100 %
650 Riverview Drive	Chatham, ON	8,950,000	July 2005	286,570	100 %
80/88 Fennell Street	Winnipeg, MB	1,200,000	August 2005	40,320	70 %
110 Henderson Drive	Regina, SK	2,900,000	September 2005	101,360	100 %
5404-36th Street	Calgary, AB	2,400,000	December 2005	36,000	100 %
505 Industrial Drive	Milton, ON	16,250,000	May 2006	258,960	100 %
Marion Street (4)	Winnipeg, MB	2,829,000	June 2006	82,851	100 %
Airport Place (3)	Winnipeg, MB	6,250,000	March 2007	324,820	83 %
7001 - 96th Street	Grande Prairie, AB	7,955,000	March 2007	33,280	100 %
4080 - 77 Street	Red Deer, AB	8,213,000	March 2007	33,280	100 %
35 Martin Way	Brooks, AB	3,522,000	March 2007	28,400	100 %
1950 Sargent Ave. (2)	Winnipeg, MB	2,850,000	March 2007	37,887	100 %
61 - 155 Paramount Road (3)	Winnipeg, MB	3,074,537	March 2007	82,049	88 %
60 - 94 Hoka Street (3)	Winnipeg, MB	795,191	March 2007	26,738	100 %
1271 Sargent Ave.	Winnipeg, MB	2,600,000	June 2007	40,893	100 %
1855 Sargent	Winnipeg, MB	2,500,000	August 2007	77,500	100 %
2595 McGillivray (7)	Winnipeg, MB	3,600,000	August 2007	73,808	100 %
1695 Sargent (7)	Winnipeg MB	3,875,000	August 2007	57,860	100 %
Total Light Industrial		97,143,728		1,958,816	96 %
Retail					
Westwood Mall	Thompson, MB	1,986,700	March 2005	53,996	87 %
Southfort Square	Fort Sask., AB	1,700,000	April 2005	33,508	79 %
Vista Landing	Calgary, AB	8,300,000	June 2005	62,099	96 %
Northgate (3)	Winnipeg, MB	5,550,000	June 2005	115,157	97 %
Chemainus Properties (4)	Chemainus, BC	4,208,400	August 2005	35,397	97 %
Cumbria Centre	Spruce Grove, AB	2,143,900	August 2005	21,193	78 %
125-185 First St. E.	Cochrane, AB	2,799,000	August 2005	15,757	100 %
Westland Plaza	Okotoks, AB	2,898,300	August 2005	13,839	100 %
Charleswood Square	Winnipeg, MB	3,444,200	August 2005	34,069	75 %
1250 Steeles Ave. E	Brampton, ON	6,500,000	September 2005	50,056	100 %
Crossroads Centre (5)	London, ON	25,351,700	September 2005	193,873	83 %
Lincoln Centre	Welland, ON	6,000,000	September 2005	171,986	85 %
Portage Place	Peterborough, ON	27,000,000	September 2005	212,766	91 %
Speedvale Centre (5)	Guelph, ON	14,621,500	September 2005	116,868	96 %
Suncoast Mall	Goderich, ON	12,500,000	September 2005	160,379	94 %
Southland Mall (5)	Winkler, MB	9,000,000	September 2005	182,854	86 %
Humboldt Mall	Humboldt, SK	3,500,000	September 2005	105,801	85 %
Willowcreek Centre	Peterborough, ON	7,000,000	September 2005	64,265	97 %
Flin Flon Wal-Mart	Flin Flon, MB	5,875,000	October 2005	63,439	100 %
Deer Park	Red Deer, AB	11,600,000	October 2005	57,806	100 %
Harbour View Village	Kenora, ON	1,250,000	November 2005	12,464	86 %
Douglasview Centre	Calgary, AB	3,600,000	March 2006	17,104	100 %
Airport Road	Yellowknife, NWT	5,300,000	June 2006	15,474	100 %
Total Retail		172,128,700		1,810,150	91 %
Sub-total		269,272,428		3,768,966	93 %

Balance forward		269,272,428		3,768,966	93 %
Office					
1000 Waverley Street	Winnipeg, MB	5,250,000	May 2005	59,439	100 %
330/340 Portage Avenue	Winnipeg, MB	13,000,000	May 2005	152,915	81 %
1189 Colonel Sam Dr.	Oshawa, ON	16,900,000	July 2005	103,179	100 %
114 Garry Street	Winnipeg, MB	5,600,000	August, 2005	74,248	100 %
Centre Square	Yellowknife, NWT	13,000,000	August, 2005	92,331	95 %
Saskatchewan Place	Regina, SK	7,400,000	February 2006	82,321	94 %
280 Broadway Avenue	Winnipeg, MB	11,000,000	March 2006	115,354	100 %
Medical Arts Building	Winnipeg, MB	14,050,000	April 2006	109,104	85 %
Cityplace (6)(7)	Winnipeg, MB	74,651,700	June 2006	453,186	80 %
67 Scurfield	Winnipeg, MB	3,850,000	June 2007	25,945	100 %
Winnipeg Parking Lots (4)	Winnipeg, MB	8,750,857	July 2007	-	100 %
220 Portage Avenue (3)	Winnipeg, MB	10,230,000	July 2007	84,922	100 %
365 Hargrave	Winnipeg, MB	8,761,362	July 2007	71,784	100 %
Century Business Park (4) (7)	Winnipeg, MB	9,061,000	August 2007	70,254	50 %
1336/1340 Sargent (4)	Winnipeg, MB	3,325,000	August 2007	42,092	100 %
1030 & 1040 Empress (4)	Winnipeg, MB	3,075,000	August 2007	33,478	100 %
220 Cree (7)	Winnipeg, MB	1,150,000	August 2007	18,000	71 %
555 Madison (7)	Winnipeg, MB	2,414,000	August 2007	18,462	- %
895 Waverley	Winnipeg, MB	5,300,000	December 2007	34,435	100 %
Total Office		216,768,919		1,641,449	91 %
Subtotal		486,041,347		5,410,415	93 %
Property Under Development					
Willowcreek Land (8)	Peterborough, ON	6,000,000	September 2005		
Flin Flon Lot 2	Flin Flon, MB	300,000	September 2007		
1750 Dugald	Winnipeg, MB	-	September 2007		
		6,300,000			
Total properties		492,341,347			
Other					
CRESI	Calgary, AB	2,850,000	March 2005		
Total real estate investments at original purchase price (Note 1)		$ 495,191,347			

Notes to Real Estate Portfolio:

(1) The purchase price is exclusive of legal fees, land transfer tax and closing costs and adjustments. The purchase price is subject to change based on adjustments which may occur subsequent to the closing date of acquisition.

(2) The property acquired is a leasehold interest.

(3) For jointly owned properties, leasable area is calculated to equal the total leasehold area of the property multiplied by the percentage of ownership as follows: a 25% undivided interest in 61 - 155 Paramount Road (328,195 square feet) and 60 - 94 Hoka Street (106,953 square feet); and a 50% interest in Airport Place (655,005 square feet); Northgate Shopping Centre (238,254 square feet) and 220 Portage Avenue (169,844 square feet).

(4) Multi-property acquisitions include 119/130 Plymouth Avenue (two properties); the Chemainus Properties (four properties), Marion Street Business Park (three properties), Century Business Park (three properties), 1336/1340 Sargent (two properties), 1030/1040 Empress (two properties) and Winnipeg Parking Lots (five properties).

(5) The purchase price of Crossroads Centre, Speedvale Centre and Southland Mall has increased from previous reports to reflect contingent consideration of $96,700, $562,500 and $2,575,500, respectively.

(6) The purchase price is net of escrow funds of $3,848,313. (Please refer to Effect of Cash in Escrow in Annual Comparison.)

(7) HREIT receives rent/income supplements from cash in escrow in regard to vacant space and/or rent in accordance with a head lease from the vendor. Occupancy rates are not increased by head lease tenancies.

(8) As part of the purchase of the Counsel portfolio in September 2005, HREIT acquired 12.8 acres of vacant land adjacent to the Willowcreek Shopping Centre. The land was allocated at a value of $6 Million and was originally included in the purchase price of the Willowcreek Shopping Centre.

Profile of 2007 Acquisitions

During 2007, HREIT acquired a full or partial interest in 29 properties, including five parking lots, at a total purchase price of $103 Million, comprising 1,214,918 square feet of leasable area. A profile of the 2007 property acquisitions is provided below.

FIRST QUARTER

Airport Place

On March 2, 2007, HREIT acquired a 50% beneficial interest of a multi-tenant retail/office/warehouse property in Winnipeg, Manitoba at a purchase price of $6.25 Million *. The 667,648 square foot property, known as Airport Place, is situated on a 22 acre site on the northwest corner of Wellington Avenue and Berry Street.

Leader Properties

On March 23, 2007, HREIT acquired three recently built Alberta industrial properties at a combined purchase price of $19.69 Million *. The effective date of the acquisitions was established as January 1, 2007. The properties, which contain a combined total of 94,960 square feet of leasable area and are located in three of the primary western Canadian oil and gas centres, are as follows:

1. 7001 - 96th Street, Grande Prairie, Alberta, is a 33,280 square foot industrial building, with a 5,000 square foot secondary building, situated on a 14.77 acre site.

2. 4080 - 77 Street, Red Deer, Alberta, is a 33,280 square foot industrial building, with a 5,000 square foot secondary building, situated on an 11.76 acre site.

3. 35 Martin Way, Brooks, Alberta, is a 28,400 square foot industrial building, with a 5,000 square foot secondary building, situated on a 7.41 acre site.

The properties are being leased back to the vendor, Leader Energy Services Ltd. ("Leader") for its western Canadian oilfield services facilities. Leader is a TSX Venture listed company that provides well stimulation and cementing services to the oil and gas industry in western Canada and northeastern United States. Leader has entered into a 20-year, triple net lease with rent increases every five years.

1950 Sargent Ave

On March 29, 2007, HREIT acquired a leasehold interest in a 37,887 square foot light industrial property in Winnipeg, Manitoba at a purchase price of $2,850,000 *. The property is located on land leased from the Winnipeg Airport Authority at 1950 Sargent Avenue and is fully leased to Federal Express on a triple net basis for a term maturing in 2014.

Paramount/Hoka

On March 30, 2007, HREIT acquired a 25% beneficial interest of two multi-tenant, light industrial properties for $3.87 Million *. The properties, which are both located in Winnipeg, Manitoba, are as follows:

1. 61 - 155 Paramount Road is a 328,195 square foot property, comprised of four separate industrial buildings. The property is located on a 16.52 acre site in the northwest section of Winnipeg in the Inkster Industrial Park.

2. 60 - 94 Hoka Street is a 106,953 square foot property, comprised of two separate buildings. The property is located on a 5.56 acre site in the east end of Winnipeg, in an area commonly known as Transcona.

SECOND QUARTER

1271 Sargent Avenue

On June 29, 2007, HREIT acquired a 40,893 square foot property located at 1271 Sargent Avenue in Winnipeg, Manitoba for $2.6 Million *. The property is comprised primarily of warehouse space, with ancillary office space, and is 100% occupied by USI-AGI Inc., a distributor of automotive parts.

67 Scurfield Boulevard

On June 29, 2007, HREIT acquired a 25,945 square foot office building located at 67 Scurfield Boulevard in Winnipeg, Manitoba for $3.85 Million *. The property is 100% leased to Proteam Technology Group.

THIRD QUARTER

JULY 19, 2007 ACQUISITIONS

On July 19, 2007, HREIT acquired a portfolio comprised of two properties and five parking lots in Winnipeg, Manitoba, as follows:

Royal Bank Building

The Royal Bank Building, a 169,844 square foot office complex located at 220 Portage Avenue. Major tenants include the Royal Bank and the Great-West Life Assurance Company. HREIT acquired a 50% beneficial interest for $10.23 Million *.

365 Hargrave

365 Hargrave is a 71,784 square foot office building. The five-storey restored Heritage building is primarily leased to the Government of Canada. The property was acquired for $8.76 Million *.

Winnipeg Parking Lots

The Winnipeg Parking Lots are comprised of five parking lots, encompassing a total of 686 parking stalls which were acquired at a combined price of $8.75 Million *. Four of the parking lots, with a total of 646 parking stalls, are located in the central business area, while the remaining 40-stall parking lot is located adjacent to the University of Winnipeg. The parking lots are leased to Impark.

1855 Sargent Avenue

On August 1, 2007, HREIT acquired a single storey industrial building located at 1855 Sargent Avenue in Winnipeg Manitoba at a price of $2.5 Million *. The property consists of 77,500 square feet of leasable area and is 100% occupied by Standard Aero Ltd., a leading supplier of services to the global aerospace defense and energy industries.

AUGUST 31, 2007 ACQUISITIONS

On August 31, 2007, HREIT acquired a portfolio comprised of 11 properties in Winnipeg, Manitoba, as follows:

220 Cree Crescent

220 Cree Crescent is an 18,000 square foot office building located in the St. James area, in close proximity to the Winnipeg International Airport. The main tenant is Pattison Signs. The property was acquired at a price of $1.15 Million *.

1030/1040 Empress Street

1030 and 1040 Empress Street are retail/office centres, comprised of 16,817 and 16,661 square feet, respectively. Key tenants include the Salvation Army, Cunningham Business Interiors and The Better Business Bureau. The properties were acquired at a combined price of $3.075 Million *.

1695 Sargent Avenue

1695 Sargent Avenue is a 57,860 square foot light industrial building. The main tenant is the Home Depot Supply. The property was acquired at a purchase price of $3.875 Million *.

2595 McGillivray Boulevard

2595 McGillivray Boulevard is a 73,808 square foot light industrial/office building located in the rapidly expanding area of southwest Winnipeg, along the Kenaston Avenue corridor. Key tenants include Paramount Pallet and the office division of Premier Van Lines. The property was acquired at a price of $3.6 Million *.

1336/1340 Sargent Avenue

1336/1340 Sargent Avenue is comprised of 42,092 square feet of office space and was acquired at a price of $3.325 Million *. Key tenants include Cunningham Business Interiors and EMCO, one of Canada's largest integrated distributors of products for the construction industry.

Century Business Park

The Century Business Park is comprised of three properties located at 1680 and 1700 Ellice Avenue and 585 Century. The properties are office and retail, comprised of 29,781, 29,824 and 9,680 square feet of leasable space, respectively. Key tenants include the Government of Canada, the Government of Manitoba, Elite Communications and Insight Canada, one of North America's leading providers of corporate I.T. products and services. The properties were acquired at a combined price of $9.1 Million *.

555 Madison Street

555 Madison Street is an 18,462 square foot office building. The property was acquired at a price of $2.4 Million *.

FOURTH QUARTER

895 Waverley Street

On December 31, 2007, HREIT acquired a two-storey office building, located at 895 Waverley Street in Winnipeg, Manitoba, at a price of $5.3 Million *. The property, which is known as the Xerox Building, consists of 34,435 square feet of leasable area and is fully leased until 2012.

* The purchase price noted does not include closing costs and adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Huntingdon Real Estate Investment Trust ("HREIT" or the "Trust") is an unincorporated closed-end real estate investment trust governed by the laws of the Province of Manitoba pursuant to an Amended and Restated Declaration of Trust, dated June 6, 2006 (the "Declaration of Trust"). The trust units of HREIT are listed on the Toronto Stock Exchange under the symbol "HNT.UN.".

Forward-Looking Information

Management's Discussion and Analysis ("MD&A") of Huntingdon Real Estate Investment Trust (HREIT" or the "Trust") should be read in conjunction with the financial statements of HREIT for the year ended December 31, 2007 and with reference to the 2007 quarterly reports.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of HREIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of HREIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in forward-looking statements, including risks associated with the proposed taxation of trusts, public markets, real property ownership, debt financing, future property acquisitions, availability of cash flow, availability of suitable investments, land leases, general uninsured losses, interest rate fluctuations, environmental matters, Unitholder liability, potential conflicts of interest, changes in legislation and investment eligibility, other tax-related risk factors, nature of units, dilution, relationship with property manager and reliance on key personnel. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, HREIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither HREIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase price, acquisition cost/acquisition value and gross book value

The Management's Discussion and Analysis employs the following terms and definitions:

Purchase price	The cost of purchasing a property excluding legal fees, land transfer tax, closing costs and adjustments
Acquisition cost/acquisition value	The cost of acquiring a property including legal fees, land transfer tax, closing costs and adjustments.
Gross book value	Total assets as defined by generally accepted prniciples adjusted to add back accumulated amortization and deduct cash and cash equivalent (acquisition asset).

2007 HIGHLIGHTS

Acquisition and Development

- Invested $103 Million in the acquisition of 29 properties and five parking lots, with 1,215,887 square feet of leasable area.
- Invested $20.1 Million in property improvements and leasing costs.
- Year ending portfolio consists of 81 income producing properties with a total leasable area of 5.4 million square feet.

Financial

Compared to 2006:

- Net operating income increased by $11.1 Million or 34% in total and by $0.126 or 26% on a per unit basis.
- "Same property" operating income increased by $683,014 or 3.1% for the 40 properties which have been in the HREIT portfolio since January 1, 2006 and are not undergoing major redevelopment (Portage Place).
- Adjusted funds from operations (AFFO) increased by $3,858,146 or 31.3% in total and by $0.043 or 23.5% on a per unit basis.
- Year ending occupancy rate for entire portfolio has remained relatively constant at 93%, compared to 94% at December 31, 2006.
- Payout ratio for distributable income of 109.8% in 2007, compared to 128.8% in 2006.
- Operating margin for property portfolio remained relatively constant at 60% compared to 59% in 2007.

Capital Structure

- Weighted average interest rate on the aggregate mortgage loan balance decreased to 6.44% at December 31, 2007 compared to 6.79% at December 31, 2006.
- Mortgage loan debt to gross book value ratio of 59% at December 31, 2007 compared to 65% at December 31, 2006.

Ongoing Investment Activities

- HREIT was selected by the City of Winnipeg to develop and maintain ownership of a new 33,000 square foot police station at a fixed price of $12.5 Million. As of December 31, 2007, construction costs for the police station amounted to $3,218,063. A $12.5 Million first mortgage loan has been arranged to fund the full cost of the property.

FINANCIAL AND OPERATING SUMMARY

	Year Ended December 31		
	2007	2006	2005
BALANCE SHEET			
Total assets	559,650,720	457,394,570	301,116,091
Total mortgage loans payable excluding mortgage premiums and transaction costs	327,320,628	264,372,551	127,049,558
Total debentures - at face value	59,621,000	11,321,000	11,321,000
Total long term debt	386,941,628	275,693,551	138,370,558
DISTRIBUTIONS			
Amount - total	20,141,386	18,931,533	13,025,222
- per unit	0.28	0.28	0.21
KEY PERFORMANCE INDICATORS			
Operating results			
Total revenue	75,429,445	57,330,848	18,443,543
Net operating income *	43,863,357	32,764,623	10,117,412
Income (loss) from continuing operations before income tax recovery (expense)	(3,015,872)	(926,988)	474,044
Income (loss) from continuing operations	739,992	(986,588)	474,044
Income (loss) for the period	879,706	(74,682)	491,478
Cash flows			
Cash inflow (outflow) from operating activities	10,954,940	9,505,080	6,637,066
Funds from Operations (FFO)*	16,862,026	14,518,877	5,285,624
Adjusted Funds from Operations (AFFO)*	16,194,889	12,336,743	5,252,483
Distributable income*	18,352,504	14,700,094	5,779,916
Operations *			
Year end occupancy rate	93 %	94 %	93 %
Increase in same property operating income (excluding properties undergoing redevelopment)	3.10 %	N/A	N/A
Capital reinvestment *			
Additions to building and equipment	11,736,248	1,908,769	1,816,690
Lease acquisition costs	5,685,198	4,327,459	595,657
Long term maintenance costs			
Recoverable	1,991,664	1,718,230	160,772
Non recoverable	660,047	279,257	-
Total	2,651,711	1,997,487	160,772
Financing *			
Mortgage loan debt to gross book value ratio at year end	59.0 %	65.3 %	48.9 %
Weighted average interest rate of long-term debt at year end	6.44 %	6.79 %	6.67 %

PER UNIT AMOUNTS

	Year Ended December 31					
	2007		2006		2005	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Operating income	0.611	0.611	0.485	0.485	0.283	0.283
Income (loss) from continuing operations before income tax recovery expense	(0.042)	(0.042)	(0.014)	(0.014)	0.014	0.014
Income (loss) from continuing operations	0.010	0.010	(0.015)	(0.015)	0.013	0.013
Income (loss) for the period	0.012	0.012	(0.001)	(0.001)	0.014	0.014
Distributable income*	0.256	0.256	0.217	0.217	0.162	0.162
Funds from Operations (FFO)*	0.235	0.235	0.234	0.234	0.147	0.147
Adjusted Funds from Operations (AFFO)*	0.226	0.226	0.182	0.182	0.147	0.147

Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with Canadian generally accepted accounting principles (GAAP) or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of HREIT. HREIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

OVERALL INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of Huntingdon Real Estate Investment Trust ("HREIT") are to maximize unit values and provide stable cash distributions to the Unitholders by creating a large diversified portfolio of quality real estate investments, primarily through the acquisition of income-producing real properties, other than multi-family residential properties. In accordance with its operating policies and subject to certain conditions, HREIT may also invest in leasehold interests, joint venture arrangements, mortgages, operating businesses and other real estate investments, with the primary limiting factor being that the main source of income from the investments must be derived from income-producing real properties, other than multi-family residential properties.

The general investment strategy of HREIT for property acquisitions is to focus on properties with stable yields, low vacancy levels, strong tenant covenants and growth potential. HREIT then strives to maximize operating income through the implementation of sophisticated and prudent financial management practices, superior operating procedures, high calibre and responsive management services, proactive leasing strategies and, where appropriate, capital improvement and renovation programs.

The overall strategy of HREIT is to fund the equity component of new property acquisitions through the issuance of trust units or convertible debentures. HREIT will also utilize operating lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

HREIT will also strive to optimize the leveraged returns from its real estate investment portfolio, while remaining within the overall debt limits as established by the Declaration of Trust. Whenever possible, HREIT will utilize fixed rate debt financing with terms which are appropriate for the nature of the leases and the properties being financed. Debt maturity dates will be staggered, to the extent possible, in order to reduce refinancing risk and to provide a potential source of additional capital as mortgage loans are refinanced. The upward refinancing of property debt will also serve as a source of capital.

Although HREIT expects to increase the size of its property portfolio, the sale of an existing property will be considered if the sale is conducive to the longer term objective of maximizing operating income and unit values. In addition to the proposed selling price, there are a number of variables which are considered in the sale decision for a specific property, including the stability of the existing tenant base and the projected leasehold improvements and/or property upgrade costs. Certain properties which were acquired as part of a multi-property acquisition may also be more likely potential sale candidates.

REAL ESTATE INVESTMENTS - 2007

Property Acquisitions

During 2007, HREIT acquired a full or partial interest in 29 properties, including five parking lots, as follows:

Property	Purchase Price (1)	Effective Closing Date	Contribution to Operating Income (in Days)
Q1			
7001 - 96th Street, Grande Prairie, AB	$ 7,955,000	January 1, 2007	365
4080 - 77 Street, Red Deer, AB	8,213,000	January 1, 2007	365
35 Martin Way, Brooks, AB	3,522,000	January 1, 2007	365
Airport Place (50% interest)	6,250,000	March 2, 2007	305
1950 Sargent Avenue	2,850,000	March 29, 2007	278
61 -155 Paramount Road (25% interest)	3,074,537	March 30, 2007	277
60 - 94 Hoka Street (25% interest)	795,191	March 30, 2007	277
Q2			
1271 Sargent Avenue	2,600,000	June 29, 2007	186
67 Scurfield Boulevard	3,850,000	June 29, 2007	186
Q3			
Royal Bank building (50% interest)	10,230,000	July 19, 2007	166
365 Hargrave Street	8,761,362	July 19, 2007	166
Winnipeg Parking Lots	8,750,857	July 19, 2007	166
1855 Sargent Avenue	2,500,000	August 1, 2007	153
220 Cree Crescent	1,150,000	August 31, 2007	123
1030/1040 Empress Street (two properties)	3,075,000	August 31, 2007	123
1695 Sargent Avenue	3,875,000	August 31, 2007	123
2595 McGillivray Boulevard	3,600,000	August 31, 2007	123
1336/1340 Sargent Avenue (two properties)	3,325,000	August 31, 2007	123
Century Business Park (three properties)	9,061,000	August 31, 2007	123
555 Madison Street	2,414,000	August 31, 2007	123
Q4			
895 Waverley	5,300,000	December 31, 2007	1
	$ 101,151,947		

(1) Purchase price excludes legal fees, land transfer tax, closing costs and adjustments.

Property Sales

On April 20, 2007, HREIT sold 550 Saskatchewan Avenue, a vacant retail property located in Portage la Prairie, Manitoba. The selling price of the property was $460,000. 550 Saskatchewan Avenue was acquired by HREIT in August 2005 as part of a portfolio acquisition at a purchase price of $406,200.

Portfolio Summary - December 31, 2007

After accounting for the new acquisitions and the sale of 550 Saskatchewan Avenue, the property portfolio of HREIT, as of December 31, 2007, consists of 81 income producing properties with a total purchase price of approximately $492 Million, encompassing 5.4 million square feet of leasable area. Trust assets also include a 100% controlling interest in Consolidated Real Estate Services Inc. (CRESI), a property management company.

Properties Under Development

In September 2007, HREIT was selected by the City of Winnipeg to develop and maintain ownership of a new 33,000 square foot police station. The police station is being constructed at a fixed price of $12.5 Million for occupancy by September 1, 2008. The City will lease the property from HREIT for a 30 year period with an option to purchase at the end of the lease term, as well as in year 10 and year 20. As of December 31, 2007, construction costs for the police station amounted to $3,218,063. (Please refer to page 37.)

On September 30, 2007, HREIT acquired a vacant lot in Flin Flon, Manitoba for potential future development. The purchase price of the property was $300,000.

As part of the purchase of the Counsel portfolio in September 2005, HREIT acquired 12.8 acres of vacant land adjacent to the Willowcreek Shopping Centre. The land was allocated at a value of $6 Million.

Property Improvements

HREIT is completing multi-million dollar leasehold and property improvement programs at a number of properties which are serving to greatly enhance the income potential of the property portfolio. (Please refer to pages 25 and 37.)

The leasehold and property improvement programs or redevelopment plans are very comprehensive in nature and involve components such as the modernization of property exteriors, the expansion of existing buildings, the reconfiguration and upgrading of common areas, the construction of new stand-alone buildings and the re-leasing of space to improve the quality of the tenant base, including the procurement of new anchor tenants in new upgraded leased facilities.

In 2007, extensive property/leasehold improvements were completed at four properties, including three properties where comprehensive property improvement plans were encompassed in the purchase agreement and significant escrow accounts were established for the specific purpose of funding the improvement costs. The total amount invested in property/leasehold improvements in 2007 was approximately $8.3 Million.

ANALYSIS OF INCOME/LOSS

Changes in Accounting Policies and Estimates Affecting Annual Comparisons

Accounting Policy Changes

As disclosed in note 2 to the audited financial statements, HREIT adopted a new accounting policy in regard to the treatment of transaction costs, effective January 1, 2007. Transaction costs are costs which are associated with the acquisition of a mortgage loan or the debt portion of debenture financing. Prior to January 1 2007, transaction costs were included in deferred charges and amortized on a straight line basis over the term of the mortgage loan or debenture financing and the amortization charges were included in "Amortization" expense. Effective January 1, 2007, transaction costs are charged directly to the associated mortgage loan or debenture financing liability (Notes 11 and 12). The amortization charges are calculated using the effective interest rate method and are included in "Financing" expenses.

The new accounting policy is in accordance with new Canadian generally accepted accounting policies (GAAP). Compared to the previous accounting policy, the new policy, resulted in a reduction in "Amortization" expense of $951,882 during 2007 and a $895,396 increase in "Financing" expense.

Changes in Accounting Estimates

As indicated in note 2 to the audited financial statements, a change in income tax legislation which was enacted in June 2007 resulted in a significant change in the estimates used in the calculation of future tax assets and liabilities.

As a result of the change, a future income tax asset of $3,591,891 has been recognized and included in other assets with a corresponding credit to income tax recovery. In general terms, a future tax asset reflects the future tax savings or tax recovery derived by the application of capital cost allowance to the amount by which asset balances for income tax purposes exceed the assets balances determined in accordance with GAAP. The future income tax recovery is a non-cash item and has no impact on the cash flows or distributions of the Trust.

The change in estimates was implemented prospectively in 2007. The policy has significantly affected the comparability of the bottom-line results of HREIT for the 2006 and 2007 operating periods as the prior years future income tax recovery is not reflected in the 2006 comparative results. As noted above the income of the Trust is $3,591,891 higher than it otherwise would have been as a result of the change in accounting estimates

The future income tax asset is subject to being "derecognized", depending on the outcome of events which may not be known until 2011, including a restructuring of the affairs of the Trust.

Effect of Cash in Escrow on Annual Comparisons

As disclosed in note 6 of the audited financial statements, the cash balance of HREIT includes escrow and reserve deposits of $4,788,546, including $1,828,157 of escrow funds which were recorded as a reduction in the purchase price of acquired properties. An analysis of escrow/reserve funds is provided in the following chart. As disclosed in the chart, approximately $13.7 million of escrow funds were released during 2007, including all of the remaining escrow funds in regard to the portfolio of nine retail properties that HREIT acquired in 2005.

Analysis of Escrow/Reserve Funds

	Amount Deducted From Purchase Price	Decrease 2007	Decrease 2006	Balance December 31, 2007
Escrow Funds Deducted from Purchase Price				
To fund construction/tenant acquisition costs (1):				
Portage Place	$ 7,500,000	$ 6,074,494	$ 1,425,506	$ -
Southland Mall	3,000,000	1,971,093	1,028,907	-
Speedvale Centre	2,742,533	830,200	827,608	-
Crossroads Centre	245,016	-	175,374	-
	13,487,549	8,875,787	3,457,395	-
To supplement revenue/income (2):				
Cityplace	3,848,313	1,314,176	705,980	1,828,157
Portage Place	1,500,000	986,157	513,843	-
Speedvale Centre	198,420	8,700	120,453	-
	5,546,733	2,309,033	1,340,276	1,828,157
Purchase price holdbacks (3)				
Portage Place	2,500,000	2,500,000	-	-
Total funds deducted from purchase price	$ 21,534,282	$ 13,684,820	$ 4,797,671	1,828,157
Other Escrow Funds				
Construction and tenant acquisition costs				1,319,340
Deposits to secure letters of credit				299,000
Capital improvement reserves				1,342,049
				$ 4,788,546

Notes:

(1) Amounts released from escrow are recorded as an asset addition or deferred expense.

(2) Amounts released from escrow become unencumbered funds of the Trust and do not have any impact on revenue or income.

(3) Amounts released from escrow are recorded as a building addition.

As disclosed in the notes to the preceding chart, funds which are released from escrow to fund rent payments or supplement income do not have any impact on revenue. As a result, the Consolidated Statement of Income (Loss) reflects all of the operating and mortgage loan financing expenses pertaining to properties with "acquisition" escrow accounts, while excluding any cash inflows pertaining to rent payments and income supplements which are released from escrow in regard to vacant space under renovation. As a result, the comparability of annual operating results is significantly affected by the extent to which funds are released from escrow in regard to rent and income supplements.

During 2007, funds which were released from escrow in regard to rent and income supplements amounted to $2,309,033, compared to $1,340,276 during 2006.

During 2007, the $2.5 million of escrow funds in regard to the purchase price holdback for Portage Place were released in full to the vendor, aside from $53,762 which was retained by the Trust

Comparison to Prior Year

Overall Results

HREIT completed 2007 with income of $879,706, compared to a loss of $74,682 in 2006. After excluding income tax recoveries/expense, HREIT incurred a loss of $2,876,158 in 2007, compared to a loss of $15,082 in 2006. As disclosed in the following chart, the increase in the loss before income tax recoveries/expense reflects an increase in net operating income, partially offset by an increase in trust and financing expenses and further reduced by an increase in amortization charges and a reduction in income from discontinued operations.

The increase in net operating income reflects an increase in total revenues, partially offset by an increase in property operating costs and property management costs.

Analysis of Income (Loss) - 2007 versus 2006

	Year Ended December 31		Increase
	2007	2006	(Decrease)
Total revenues	$ 75,429,445	$ 57,330,848	$ 18,098,597
Total operating and property management costs	31,566,088	24,566,225	(6,999,863)
Net operating income	43,863,357	32,764,623	11,098,734
Trust expense	2,360,203	2,114,757	(245,446)
Income before financing expense, amortization, discontinued operations and taxes *	41,503,154	30,649,866	10,853,288
Financing expense	24,562,887	15,410,033	(9,152,854)
Income before amortization, discontinued operations and taxes *	16,940,267	15,239,833	1,700,434
Amortization	19,956,139	16,166,821	(3,789,318)
Income from discontinued operations	139,714	911,906	(772,192)
Income (loss) from continuing operations before income tax recoveries/expense *	(2,876,158)	(15,082)	(2,861,076)
Income tax recoveries (expense)	3,755,864	(59,600)	3,815,464
Income (loss) for the period	$ 879,706	$ (74,682)	$ 954,388

The analysis of income (loss) represents the re-formatting of balances from the Consolidated Statements of Income (Loss) in order to provide a summarized analysis of the financial performance of the Trust. All of the line item amounts in the analysis agree to the amounts in the audited financial statements. Accordingly, the analysis consists entirely of GAAP measurements, aside from three sub-totals (see asterisks).

Rental Operations

Total Revenues

The operations of HREIT encompass a growing portfolio of income-producing properties, as well as the ownership of a property management company based in Calgary, Alberta. The portfolio of Income Properties includes light industrial, office and retail properties located across western Canada and in Ontario and the Northwest Territories. For financial reporting purposes, the operating results of HREIT are segmented geographically and by property type, with the operating results for the property management company categorized separately under "Property Management/Alberta". The operating results pertaining to overall asset management and administrative activities are also categorized separately under the heading of "Trust".

As disclosed in the following chart, rental revenue from the portfolio of Income Properties is the primary source of revenue, accounting for 94% and 92% of the total revenue of HREIT in 2007 and 2006, respectively. During 2007, total revenues increased by $18,098,597, compared to 2006, comprised of a $17,999,869 increase in rental revenue from income properties, a $621,155 increase in interest and other income and a $522,427 decrease in property management revenue.

Analysis of Total Revenues - 2007 versus 2006

	Percentage of Total Revenues	
	2007	2006
Rentals from income properties	94 %	92 %
Property management revenue	4 %	6 %
Interest and other income	2 %	2 %
Total revenues	100 %	100 %

A detailed analysis of the increase in rental revenue from income properties is provided below.

Rental Revenue From Income Properties

General

As noted above, rental revenue from Income Properties increased by approximately $18 Million, during 2007. The increase mainly reflects the growth in the real estate portfolio of HREIT, as well as the increase in the revenues of the properties which have been in the HREIT portfolio since January 1, 2006.

During 2007, rental revenue was generated from 81 properties with a total purchase price of $492 Million. During 2006, 50 properties, with a total acquisition cost of $391 Million, contributed to rental revenue.

Rental Revenues by Geographic Market Segment

The long-term investment strategy of HREIT is to create a real estate portfolio which is diversified geographically and by property type. During 2007, the majority of properties acquired were located in Winnipeg, Manitoba, resulting in a relatively high concentration of properties in Manitoba as of December 31, 2007. As reflected in the chart below, the Manitoba portfolio accounted for 53% of the total rental revenues of the Trust during 2007, compared to 43% during 2006.

Analysis of Rental Revenues by Geographic Market Segment

	Percentage of Total Rental Revenue	
	Year Ended December 31	
	2007	2006
Income Properties:		
Winnipeg	48 %	37 %
Other Manitoba	5 %	6 %
Total Manitoba	53 %	43 %
Ontario	26 %	35 %
Alberta	10 %	9 %
Northwest Territories	6 %	7 %
Saskatchewan	4 %	5 %
British Columbia	1 %	1 %
	100 %	100 %

Rental Revenues by Property Sectors

The "target" objective of HREIT is to create a portfolio which has a relatively even distribution of properties between the industrial, retail and office sectors. It is anticipated, however, that growth will not occur evenly by sector and that the proportion of properties in each sector may fluctuate significantly over the short-term. As reflected in the chart below, the office property sector represents the largest segment of the HREIT portfolio in terms of rental revenues, accounting for 46% of the total rental revenues of the Trust during 2007.

Analysis of Rental Revenues by Business Sector

	Percentage of Total Rental Revenue	
	Year Ended December 31	
	2007	2006
Income Properties		
Office	46 %	41 %
Retail	37 %	47 %
Industrial	17 %	12 %
	100 %	100 %

During 2007, the percentage of rental revenues attributable to the office and industrial sector increased compared to 2006, as a result of property acquisitions. During 2007, acquisitions in the "office" sector accounted for 55% of total acquisitions, based on purchase price, while acquisitions in the "industrial" sector accounted for 45% of total acquisitions.

Lease Analysis

Tenant Profile

The lease portfolio of HREIT consists of a high percentage of tenancies with well-established operations, offering strong covenants, and which significantly enhance the overall stability and quality of the tenant base of the Trust. As reflected in the following chart, the 20 largest tenants in the HREIT portfolio account for 45% of the total leased space, as of December 31, 2007, while 15% of the total space is secured with leases from the federal government and from the government of the Northwest Territories and the provinces of Manitoba and Saskatchewan.

Largest Tenants by Leased Area - December 31, 2007

	Area Leased * (square feet)	Percentage of Portfolio	Number of Locations
Province of Manitoba	316,201	5.83 %	5 (14 leases)
Government of Canada	315,252	5.82 %	9 (20 leases)
Northern Group Retail Ltd.	258,960	4.78 %	1
International Truck	218,570	4.03 %	1
Zellers	161,091	2.97 %	2
Province of Saskatchewan	145,603	2.69 %	2
Bison Diversified	117,615	2.17 %	1
Purolator Courier Ltd.	113,864	2.10 %	1
Minacs Worldwide Inc.	103,179	1.90 %	1
Leader Energy Services Ltd.	94,960	1.75 %	3
The Great-West Life Assurance Co.	86,467	1.59 %	2 (3 leases)
Standard Aero	77,500	1.43 %	1
Wal-Mart	63,439	1.17 %	1
Staples	55,590	1.03 %	3
Wellington Polymer	55,000	1.01 %	1
Cunningham Business Interiors Ltd	53,662	0.99 %	2
Government of the Northwest Territories	53,081	0.98 %	1 (4 leases)
Gemini Fashions	50,931	0.94 %	1
Pritchard Metalfab Inc.	48,100	0.89 %	1
Convergys	44,083	0.82 %	1
	2,433,148	44.88 %	

* For tenants in co-owned properties, the leased area has been adjusted to reflect proportional ownership.

Occupancy Levels

HREIT strives to maximize occupancy levels throughout its portfolio of income-producing properties. During 2007 there was a modest decrease in the overall occupancy level of the total portfolio, with the average occupancy rate decreasing from 94% in 2006 to 93%.

The following table presents the gross leasable area (GLA) and quarter ending occupancy rate for the past nine quarters by industry sector.

	Industrial		Retail		Office		Total	
	GLA	Occ.	GLA	Occ.	GLA	Occ.	GLA	Occ.
2007								
December 31	1,958,816	96 %	1,810,150	91 %	1,641,449	91 %	5,409,446	93 %
September 30	1,958,816	96 %	1,810,150	88 %	1,606,045	90 %	5,375,011	92 %
June 30	1,749,648	96 %	1,810,150	88 %	1,268,822	95 %	4,828,620	93 %
March 31	1,711,059	96 %	1,814,093	90 %	1,228,975	96 %	4,754,127	93 %
2006								
December 31	1,148,107	99 %	1,933,220	90 %	1,228,975	96 %	4,310,302	94 %
September 30	1,148,107	99 %	1,926,519	89 %	1,228,975	96 %	4,303,601	94 %
June 30	1,195,214	98 %	1,931,778	90 %	1,269,690	94 %	4,396,682	93 %
March 31	863,253	99 %	1,916,304	92 %	671,453	97 %	3,451,010	95 %
2005								
December 31	863,253	95 %	1,899,220	92 %	482,685	95 %	3,245,158	93 %

Leasing Results

The modest decrease in the average occupancy level is mainly attributable to the fact that the 2006 property acquisitions of HREIT encompassed a high level of leases with maturity dates in 2007. As disclosed in the following chart, leases with maturity dates in 2007 accounted for 79% of the total vacant/expiring space during the year. Although the renewal rate for the 2007 lease expiries was favourable at 72%, the lease-up rate for vacant space was significantly lower due to 72,000 square feet of vacant space at December 31, 2007 that was not re-leased until the first quarter of 2008 for occupancy in the second half of 2008 and the first half of 2009.

2007 Lease Expiries:	
December 31, 2006 portfolio	767,741
2007 acquisitions	191,891
2007 total expiries	959,632
Leases renewed *	(688,418)
Additions to vacancy	271,214
Vacant space, January 1, 2007	258,618
Total vacant space - 2007	529,832
Vacant space leased - 2007	(151,171)
Vacant space, December 31, 2007	378,661

* Includes 16,388 Sq. Ft. currently under negotiations.

2008 Lease Expiries

The long-term objective of HREIT is to create a property portfolio with a relatively balanced level of lease maturity dates throughout each property sector. Tenants in multi-tenant properties in all asset classes typically lease for terms of four to five years, whereas single tenants in industrial properties typically lease for longer terms. A balanced lease maturity schedule would, therefore, be expected to have lease expiries of 10% to 15% in any one year. As disclosed in the following chart, the percentage of leases expiring during the next five years for the HREIT portfolio ranges from 7.4% in 2011 to 17.3% in 2009, with 2008 being at the lower end of the range at 9.8%.

Leases Expiring	2008	2009	2010	2011	2012	Weighted Average Term to Maturity
Industrial						
GLA	64,792	406,429	216,136	101,731	318,645	8.59
% of Industrial Portfolio	3.2 %	20.3 %	10.8 %	5.1 %	15.9 %	
Retail						
GLA	173,028	303,389	188,975	222,347	235,135	5.09
% of Retail Portfolio	9.6 %	16.8 %	10.4 %	12.3 %	13.0 %	
Office						
GLA	295,837	228,409	160,770	75,789	42,247	4.28
% of Office Portfolio	18.4 %	14.2 %	10.0 %	4.7 %	2.6 %	
Total Portfolio						
GLA	533,657	938,227	565,881	399,867	596,027	5.81
% of Total Portfolio	9.8 %	17.3 %	10.4 %	7.4 %	11.0 %	

In 2008, it is anticipated that the tenant retention rate will exceed the 70% level which was achieved in 2007. As disclosed in the following chart, 52% of the leases expiring in 2008 have been renewed as of March 1, 2008 and overall, 90% of the total expiring space has the potential for renewal.

Analysis of Lease Expiries	Gross Leasable Area	% of Total
Leases renewed	279,453	41 %
Lease terms under negotiatiog	48,562	7 %
Under discussion/not yet contacted	153,877	22 %
Subtotal	481,892	70 %
Tenants vacating	51,765	8 %
	687,534	100 %

Operating Costs

Analysis of Operating Cost by Business Sector

	Property Operating Costs		Increase (Decrease)	
	2007	2006	2007	%
Income Properties				
Office	$ 15,614,121	$ 10,164,108	$ 5,450,013	54 %
Retail	10,466,494	10,085,067	381,427	4 %
Industrial	2,773,442	1,636,097	1,137,345	70 %
Total income properties	28,854,057	21,885,272	6,968,785	32 %
Property Management	2,712,031	2,680,953	31,078	1 %
Total portfolio	$ 31,566,088	$ 24,566,225	$ 6,999,863	28 %

During 2007, property operating costs increased by $6,968,785 or 32%, compared to 2006, primarily due to an increase in costs in the office portfolio. On a percentage basis, operating costs increased by 54% in the office sector and by 70% in the industrial sector. The percentage increase in property operating costs generally corresponds to the increase in the size of the office and industrial property portfolios during 2007.

The variance between the amount of the operating cost increase between the office and industrial sectors mainly reflects a difference in the manner in which operating costs are treated under the lease terms for each property sector. In general, office and retail properties have higher operating costs than industrial properties and the costs are typically paid by the landlord and subsequently recovered from tenants through additional rent charges. For industrial properties, a higher percentage of operating costs are paid directly by the tenant, particularly for the single tenant industrial properties which comprise a large percentage of the HREIT industrial property portfolio.

Net Operating Income and Operating Margin

Summary Analysis of Net Operating Income by Business Sector

	Net Operating Income					
	Amount		Percentage of total		Operating Margin	
	2007	2006	2007	2006	2007	2006
Income Properties						
Office	$ 17,565,714	$ 11,633,187	40 %	35 %	53 %	53 %
Retail	16,120,099	$ 15,281,266	37	47	61	60
Industrial	9,233,499	4,823,471	21	15	77	75
Total income properties	42,919,312	31,737,924	98	97	60	59
Property Management	296,727	856,098	1	2	10	24
Trust	647,318	170,601	1	1	n/a	n/a
Total portfolio	$ 43,863,357	$ 32,764,623	100 %	100 %	58 %	57 %

After accounting for revenue and cost increases, the net operating income from the portfolio of income properties increased by $11,181,388 or 35% in 2007, compared to 2006, while the operating margin remained relatively constant, increasing from 59% in 2006 to 60% in 2007. There was also a minimal change in the operating margin within each property sector in 2007, ranging from approximately 77% in the industrial sector to 53% in the office sector.

Net operating income was also affected by fluctuations in the income results of CRESI and Trust operations. As reported previously, CRESI operations were affected by the sale of a number of managed properties and the resultant termination of the management contracts as well as by non recurring commission revenue of approximately $300,000 which was earned in 2006. In 2007, Trust operations reflect the investment income on the proceeds of the unit and debenture issues pending the investment of the proceeds in income properties.

Same Property Analysis

There are 41 properties in the property portfolio of HREIT which have been owned by the Trust since January 1, 2006. The 41 properties encompass 3,179,284 square feet of leaseable space and include Portage Place, a 212,766 square foot property in Peterborough. During 2007, a major redevelopment program was being undertaken at Portage Place and as a result, a substantial amount of the leaseable space at the property was temporarily removed from the rental market. As disclosed in the following chart, there was a minimal change in the revenue and operating income of the 41 properties in 2007 primarily due to the impact of the redevelopment program at Portage Place.

	Year Ended December 31		Increase	
	2007	2006	Amount	%
Total revenue	$ 39,584,755	$ 39,162,882	$ 421,873	1.1 %
Net operating income	$ 24,657,464	$ 24,231,675	$ 425,789	1.8 %

After excluding Portage Place from the portfolio of 41 properties, the revenue and operating income of the remaining 40 properties increased by 1.8% and 3.1% respectively, during 2007 compared to 2006. Please refer to the following chart.

	Year Ended December 31		Increase	
	2007	2006	Amount	%
Total revenue	$ 36,153,426	$ 35,507,445	$ 645,981	1.8 %
Net operating income	$ 22,934,001	$ 22,250,987	$ 683,014	3.1 %

As previously disclosed, funds which are released from escrow to fund rent payments or supplement income for properties under development are not reflected in the operating income of the affected properties. After considering rent and income supplements which were released from escrow during 2007, including $986,157 of escrow funds which were received by Portage Place, the operating income of the 41 properties increased by 3.2% in 2007 compared to 2006. Please refer to the following chart.

	Year Ended December 31		Increase	
	2007	2006	Amount	%
Net operating income, including rent and income supplements	$ 25,652,321	$ 24,865,971	$ 786,350	3.2 %

Trust Expense

Trust expense increased by $245,446 or 11.61% during 2007, compared to 2006. The increase mainly reflects the following factors:

- an increase of $388,114 in the monthly service fee of Shelter Canadian in regard to administrative and asset management services due to an increase in the asset base of the Trust during 2007. The fee is equal to 0.3% of the gross book value of the assets of HREIT, excluding cash, as of the date of the most recently issued financial statements.

  Please refer to "Related Party Transactions" for additional information in regard to the administrative, asset management and property management services which are provided to HREIT by Shelter Canadian Properties Limited and the associated remuneration;

- a decrease in stock exchange filing fees of $158,928, as the fees in 2006 included a lump-sum non-recurring payment of $160,000 for changing the listing of HREIT from the TSX Venture Exchange to the Toronto Stock Exchange (TSX).

- an increase in unit-based compensation expense of $38,710, representing the estimated market value of the additional unit options which were issued in July 2007. Please refer to "Trust Units", in the "Capital Resources and Liquidity" section of this report.

Financing Expense

As disclosed in the following chart, financing expense increased by $9,152,854 or 59%, compared to 2006, of which $5,048,130 or 55% pertains to mortgage loan financing and $4,104,724 or 45% pertains to debenture financing. In total, amortization charges in regard to the new accounting policy for transaction costs account for $895,396 or 10% of the total increase in financing expense.

Analysis of Financing Expense

	Year Ended December 31		Increase (Decrease)	
	2007	2006	2007	%
Debentures				
Interest expense	$ 3,647,367	$ 905,680	$ 2,741,687	303 %
Accretion of debt component	1,408,946	$ 432,740	976,206	226 %
Amortization of transaction costs	386,831	$ -	386,831	100 %
	5,443,144	$ 1,338,420	4,104,724	307 %
Mortgages				
Mortgage loan interest	18,735,729	$ 14,183,860	4,551,869	32 %
Change in value - swap asset	(7,010)	$ -	(7,010)	100 %
Amortization of mortgage premiums	(117,541)	$ (112,247)	(5,294)	5 %
Amortization of transaction costs	508,565	$ -	508,565	100 %
	19,119,743	$ 14,071,613	5,048,130	36 %
Total	$ 24,562,887	$ 15,410,033	$ 9,152,854	59 %

Financing Expense - Mortgage Loans

Financing expense on mortgage loans increased by $5,048,130 or 36% in 2007, compared to 2006, of which $508,565 is attributable to the new accounting policy for transaction costs. As a percentage of operating income from rental properties, financing expense on mortgage loans, excluding amortization charges, decreased from 44% during 2006 to 43% during 2007. The modest decrease in the percentage amount mainly reflects a modest decrease in both the overall mortgage loan debt ratio and the weighted average interest rate of the entire portfolio of mortgage loans. Please refer to "Mortgage Loans Payable" in the "Capital Resources and Liquidity" section of this report.

Financing Expense - Debentures

Financing expense on convertible debentures increased by $4,104,724 or 307% in 2007, compared to 2006, of which $386,831 is attributable to the new accounting policy for transaction costs. As a percentage of operating income from rental properties, financing expense on convertible debentures, excluding amortization charges, increased from 4% during 2006 to 12% during 2007. The increase in the percentage amount mainly reflects the issuance of $48.3 Million of convertible debenture debt during the period from March 29, 2007 to April 5, 2007.

Amortization Expense

During 2007, amortization charges increased by $3,789,318 or 23%, compared to 2006. The increase in amortization charges mainly reflects the cumulative growth in the HREIT property portfolio. As a percentage of operating income, amortization expense decreased from 49% in 2006 to 46% in 2007, mainly due to the change in accounting policy for transaction costs.

Comparison to Preceding Quarter

Analysis of Income (Loss) - 2007 Fourth Quarter vs. 2007 Third Quarter

	Three Months Ended December 31, 2007	Three Months Ended September 30, 2007	Increase (Decrease)
Total revenues	$ 20,191,736	$ 19,145,432	$ 1,046,304
Total operating and property management costs	8,475,186	7,799,819	675,367
Net operating income	11,716,550	11,345,613	370,937
Trust expenses	671,036	510,338	(160,698)
Income before financing expense, amortization, discontinued operations and taxes	11,045,514	10,835,275	210,239
Financing expense	7,066,944	6,111,699	(955,245)
Income before amortization, discontinued operations and taxes	3,978,570	4,723,576	(745,006)
Amortization	5,439,558	5,035,272	(404,286)
Income from discontinued operations	-	-	-
Income (loss) from continuing operations before income tax recoveries/expense	(1,460,988)	(311,696)	(1,149,292)
Income tax recoveries (expense)	919,124	129,175	789,949
Income (loss) for the period	$ (541,864)	$ (182,521)	$ (359,343)

Excluding income tax recoveries/expense, HREIT incurred a loss of $1,460,988 during the fourth quarter of 2007, compared to a loss of $311,696 in the third quarter of 2007. The increase in the loss reflects the following factors:

- an increase in net operating income of $370,937. The increase mainly reflects the incremental operating income from properties which were acquired part way through the third quarter of 2007; partially offset by a $332,462 decrease in operating income at City Place due to a major tenant vacating their premises at the expiry of their lease.

- an increase in financing expense of $955,245. The increase also mainly reflects an increase in mortgage loan financing expense of $581,032 and an increase in changes pertaining to the valuation of the "swap" asset of $305,931. The increase in mortgage loan financing expense mainly reflects an increase in interim financing during the fourth quarter, as well as the incremental financing expense for the properties which were acquired during the third quarter of 2007. As a percentage of operating income from rental properties, financing expense on mortgage loans increased from 41.3% during the third quarter of 2007 to 44.4% during the fourth quarter of 2007;

- an increase in trust expense of $160,698. The increase mainly reflects a $57,239 increase in service fees paid to Shelter Canadian Properties Limited and an increase in the year end accrual for audit fees of $40,800.

- an increase in amortization expense of $404,286. The increase mainly reflects the incremental amortization charges associated with properties which were acquired part way through the third quarter of 2007. Amortization expense as a percentage of operating income was 46% during the fourth quarter of 2007, compared to 44% during the third quarter of 2007.

After including income tax recoveries/expense, HREIT completed the three month period ended December 31, 2007 with a loss of $541,864 compared to a loss of $182,521 during the third quarter of 2007. As previously advised, the future income tax recoveries are mainly attributable to a change in accounting estimates.

In addition, the comparative operating results for the third and fourth quarters of 2007 do not reflect the funding of rent payments and income supplements from funds in escrow. During the third and fourth quarters of 2007, the rent payments and income supplements funded from escrow amounted to $612,470 and $420,448, respectively.

Summary of Quarterly Results

Quarterly Analysis For the Year Ended December 31

	2007			
	Q4	Q3	Q2 (1) (restated)	Q1 (1) (restated)
Total revenue	$ 20,191,736	$ 19,145,432	$ 18,390,334	$ 17,701,943
Operating income	$ 11,716,550	$ 11,345,613	$ 10,942,823	$ 9,858,371
Income (loss) (2)	$ (541,864)	$ (182,521)	$ 2,438,785	$ (834,694)
PER UNIT				
Operating income				
- basic	$ 0.163	$ 0.158	$ 0.152	$ 0.139
- diluted	$ 0.163	$ 0.158	$ 0.152	$ 0.138
Income (loss) (2)				
- basic	$ (0.008)	$ (0.003)	$ 0.034	$ (0.012)
- diluted	$ (0.008)	$ (0.003)	$ 0.034	$ (0.012)

Quarterly Analysis For the Year Ended December 31

	2006			
	Q4 (1) (restated)	Q3 (1) (restated)	Q2 (1) (restated)	Q1 (restated)
Total revenue	$ 17,399,177	$ 16,199,803	$ 12,810,291	$ 11,014,306
Operating income	$ 9,791,941	$ 9,356,326	$ 7,451,109	$ 6,147,080
Income (loss)	$ (115,446)	$ (177,179)	$ 150,650	$ 67,293
PER UNIT				
Operating income				
- basic	$ 0.145	$ 0.138	$ 0.111	$ 0.092
- diluted	$ 0.145	$ 0.138	$ 0.111	$ 0.092
Income (loss)				
- basic	$ (0.002)	$ (0.003)	$ 0.002	$ 0.001
- diluted	$ (0.002)	$ (0.003)	$ 0.002	$ 0.001

Notes:

1. The restatement of the quarterly results reflects a reduction to total revenue and operating income for amounts pertaining to discontinued properties.

2. After deducting future income tax recovery of $2,594,163 which was recorded in the second quarter of 2007 due to a change in the accounting estimate for income taxes of HREIT as a result of new income tax legislation (please refer to page 13) the Trust incurred a loss of $155,378. On a per unit basis, the loss for the second quarter is $0.002 (basic and diluted).

Total Income/Loss Per Unit

Analysis of income (loss) per unit

	Year Ended December 31 2007	Year Ended December 31 2006	Increase (Decrease)
Income (loss) for the period			
- basic	$ 0.012	$ (0.001)	$ 0.013
- diluted	$ 0.012	$ (0.001)	$ 0.013
Loss for the period, before income tax recoveries/expense			
- basic	$ (0.042)	$ (0.014)	$ (0.028)
- diluted	$ (0.042)	$ (0.014)	$ (0.028)

Excluding future income tax recoveries and discontinued operations, HREIT incurred a loss of $0.042 per unit in 2007, compared to a loss of $0.014 per unit in 2006. The increase in the loss per unit reflects the increase in the overall loss of HREIT during 2007, partially offset by a 6.39% increase in the number of issued and outstanding trust units, mainly due to the private placement of 4,166,700 trust units in January 2007.

ANALYSIS OF CASH FLOWS

Operating

Analysis of Cash Provided by Operating Activities

	Year Ended December 31 2007	2006	Increase (Decrease)
Total revenues	$ 75,429,445	$ 57,330,848	$ 18,098,597
Total operating and property management costs	31,566,088	24,566,225	(6,999,863)
Net operating income	43,863,357	32,764,623	11,098,734
Non-cash component of revenue	(1,698,432)	(1,677,616)	(20,816)
Net operating income - cash basis (a)	42,164,925	31,087,007	11,077,918
Trust expense	2,360,203	2,114,757	245,446
Non-cash component of trust expense	(58,330)	(19,620)	(38,710)
Trust expense - cash basis (b)	2,301,873	2,095,137	206,736
Cash component of financing expense:			
Mortgage loan interest	18,735,729	14,183,860	(4,551,869)
Interest paid on debentures	3,647,367	905,680	(2,741,687)
Financing expense - cash basis (c)	22,383,096	15,089,540	7,293,556
Income tax expense (d)	76,027	307,399	(231,372)
Cash provided by operating activities, before changes in non-cash operating activities, tenant inducements and leasing expenses (a-b-c-d)	17,403,929	13,594,931	3,808,998
Lease acquisition costs	(5,685,198)	(4,327,459)	(1,357,739)
Long-term maintenance costs	(2,651,711)	(1,997,487)	(654,224)
	9,067,020	7,269,985	1,797,035
Changes in non-cash operating items	1,887,920	2,235,095	(347,175)
Cash provided by operating activities	$ 10,954,940	$ 9,505,080	$ 1,449,860

Cash from Operating Activities

Summary

In 2007, HREIT generated cash from operations activities of $10,954,940, compared to $9,505,080 in 2006. After excluding changes in non-cash operating items, cash from operating activities increased by $1,797,035 or **37**% in 2007, compared to 2006. The increase is mainly due to an increase in net operating income, largely offset by an increase in the cash component of financing expense, and in lease acquisition and long-term maintenance costs.

The cash component of financing expense reflects mortgage loan interest and convertible debenture payments and is calculated by excluding amortization of transaction costs and mortgage premiums, changes in the value of the "swap asset" and the accretive portion of the debt component of convertible debentures.

The increase in the cash component of financing expense reflects an increase in interest expense on mortgage loans payable and an increase in convertible debenture interest. The increase in interest expense on mortgage loans mainly reflects the $63 million increase in mortgage loans payable during 2007 while the increase in convertible debenture interest mainly reflects the issuance of Series C convertible debentures on March 29, 2007.

Lease Acquisition Costs

During 2007, lease acquisition costs amounted to $5,685,198, compared to $4,327,459 during 2006. The increase mainly reflects an increase in expenditures for the four properties where major redevelopment programs have been completed. In total, **63%** of the lease acquisition costs which were incurred in 2007 pertain to the four properties which completed major redevelopment programs compared to 60% in 2006.

A summary of lease acquisition costs is provided in the following chart.

Analysis of Lease Acquisition Costs

	2007	2006
Properties undergoing redevelopment		
Portage Place	$ 1,046,331	$ -
Lincoln Centre	552,122	414,999
Speedvale Centre	925,102	886,398
Southland Mall	1,038,428	1,288,888
Sub-total	3,561,983	2,590,285
Airport Place	391,220	-
1250 Steeles	168,999	-
1336/1340 Sargent	339,543	-
City Place	358,002	-
110 Lowson	-	742,838
Crossroads	140,101	235,274
330/340 Portage	102,995	227,915
Other	622,355	531,147
	$ 5,685,198	$ 4,327,459

Long-Term Maintenance Expenditures

During 2007, long-term maintenance expenditures increased by $654,224, compared to 2006. As disclosed in the following chart, The increase mainly reflects expenditures on four properties which were purchased with a requirement to complete maintenance programs.

Analysis of Long-Term Maintenance Expenditures

	2007	2006
Speedvale Centre	$ 137,138	$ -
330/340 Portage Avenue	509,394	436,551
650 Riverview	643,821	538,242
Lincoln Centre	555,019	450,484
Other	806,339	572,210
	$ 2,651,711	$ 1,997,487

Funds from Operations (FFO)/Adjusted Funds from Operations (AFFO)

HREIT considers "Funds from Operations ("FFO") and "Adjusted Funds from Operations" ("AFFO") to be meaningful additional measures of operating performance, as FFO measures the cash generating abilities of HREIT, while AFFO is indicative of available cash flow after capital reinvestment transactions. FFO is calculated in accordance with the recommendations of the Real Property Association of Canada (RealPac).

As disclosed in the analysis of escrow funds in the "Results of Operations" section of this report, the property acquisitions of HREIT have encompassed the establishment of escrow funds in excess of $21.5 Million, of which $5,546,733 was designated for the purpose of supplementing the revenue/income of specific properties while the properties are undergoing extensive renovations or improvements. Although the RealPac definition of FFO does not provide for escrow funds to be included in the FFO calculation, HREIT considers the revenue/income supplements to be relevant variables in the calculation of FFO in order to provide a more accurate depiction of the revenue/income potential of the property portfolio and to provide meaningful comparisons of FFO from period to period.

Accordingly, the following analysis includes a calculation of FFO, excluding revenue and income supplements, and including revenue and income supplements. All references to FFO in this report, however, are based on FFO as defined by RealPac.

The AFFO calculation encompasses the revenue and income supplements which were funded from escrow, as well as amounts released from escrow for purposes of funding lease acquisition or non-recoverable long-term maintenance expenditures.

During 2007, FFO increased by $2,343,149 or 16.1%, compared to 2006, while AFFO increased by $3,858,146 or 31.3%. On a per unit basis, FFO increased by $0.020 per unit, while AFFO increased by $0.043 per unit.

Funds from Operations/Adjusted Funds from Operations

	Year Ended December 31 2007	2006
Income (loss)	$ 879,706	$ (74,682)
Add (deduct):		
Amortization expense - continuing operations	19,956,139	16,166,821
Amortization expense - discontinued operations	1,748	25,337
Amortization of deferred financing fees	-	(465,637)
Future income taxes	(3,831,891)	(247,800)
Gain on sale of asset	(143,676)	(885,162)
Funds from operations as defined by RealPac (FFO)	**16,862,026**	**14,518,877**
Rent payments and NOI supplements funded from escrow	2,309,033	1,340,276
Funds from operations, adjusted for rental revenue and NOI supplements funded from escrow	**19,171,059**	**15,859,153**
Add (deduct):		
Accrued rental revenue	(1,063,117)	(1,024,628)
Above market leases	508,517	686,533
Below market leases	(1,143,832)	(1,339,521)
Amortization of swap asset	(7,010)	-
Unit based compensation	58,330	19,620
Accretion	1,408,946	432,740
Lease acquisition costs	(5,685,198)	(4,327,459)
Non-recoverable long-term maintenance expenditures	(660,047)	(279,257)
Lease acquisition and non-recoverable long-term maintenance expenditures:		
Funded from escrow	2,914,959	2,309,562
To be funded from escrow *	692,282	-
Adjusted funds from operations (AFFO)	$ 16,194,889	$ 12,336,743
Funds from operations per unit		
- basic	$ 0.235	$ 0.215
- diluted	$ 0.235	$ 0.215
AFFO per unit		
- basic	$ 0.226	$ 0.183
- diluted	$ 0.226	$ 0.183

* With the exception of Lincoln Centre, escrow funds are released on a timely basis to permit the payment of construction and tenant improvement invoices directly from escrow funds. At Lincoln, escrow funds are released subsequent to the completion of the construction and leasing program. During the third quarter, a request for the release of $692,282 of escrow funds was submitted to the mortgage lender.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are not defined by GAAP and are non-GAAP financial measures of operating performance which are widely used by the real estate industry. FFO has been calculated in accordance with the recommendations of Real Property Association of Canada ("RealPac"). FFO per unit and AFFO per unit have been calculated on a basis which is consistent with the method prescribed by GAAP for calculating earnings per unit. FFO and AFFO should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with GAAP. The method that is used by HREIT for calculating FFO and AFFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Distributable Income

Distributable income is a non-GAAP measurement which differs from "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. The stated policy of HREIT is to distribute cash to the Unitholders, on a monthly basis, in an amount which is approximately equal to 90% of the annual "Distributable Income" of the Trust. Distributions may also be established at a specific level, as determined by the Trust and, as such, may exceed distributable income.

During 2007, distributable income increased by $3,652,410 or 24.8%, compared to 2006. A reconciliation between cash from operating activities and distributable income is provided in the following chart.

Reconciliation Between Distributable Income and Cash From Operating Activities

	Year Ended December 31, 2007	
	2007	2006
Net cash from operating activities, per Statement of Cash Flow	$ 10,954,940	$ 9,505,080
Add (deduct)	-	-
(Income)/loss before amortization - discontinued operations	(2,214)	52,081
Change in non-cash operating items	(1,887,920)	(2,235,095)
Long-term maintenance expenditures	2,651,711	1,997,487
Lease acquisition costs	5,685,198	4,327,459
Amortization of lease acquisition costs	(1,475,785)	(399,440)
Amortization of mortgage premiums	117,541	112,246
Rent payments and NOI supplements funded from escrow	2,309,033	1,340,276
	-	-
Distributable income	$ 18,352,504	$ 14,700,094
Per unit		
- Basic	$ 0.256	$ 0.218
- Diluted	$ 0.256	$ 0.218

Financing Activities

Summary

During 2007, the net cash flow provided by financing activities amounted to $28,865,232. Financing activities consisted primarily of transactions related to the unit and debenture offerings, mortgage loan financing and debt repayments and cash distributions.

Unit Offering

On January 17, 2007, HREIT completed a private placement of 4,166,700 trust units at a price of $2.40 per unit for aggregate gross proceeds of $10,000,080.

Debenture Offering

On March 29, 2007, HREIT completed a public offering of 5 Year Series C Convertible Redeemable Unsecured Subordinated Debentures in the gross amount of $42 Million. On April 5, 2007, the "over allotment" option on the Series C convertible debenture issue was exercised for additional gross proceeds of $6,300,000.

Mortgage Loan Financing

During 2007, the gross proceeds from new mortgage loan financing amounted to $34,182,632 of which $9,580,850 pertains to properties which were acquired during 2007, $16,601,782, pertains to the upward refinancing of properties acquired prior to 2007, and $8 million represents "interim financing (please refer to special debt provisions)".

Mortgage Loan Debt Repayments

During 2007, mortgage loan principal repayments amounted to $39,566,647, of which $5,684,177 represents regular monthly repayments; $20,970,000 represents the lump-sum repayment of interim loans, and $12,912,470 represents the amount retired on the upward refinancing of properties acquired prior to 2007.

Distributions

The distribution policy of HREIT is to pay distributions on a monthly basis. A distribution of $0.02333 per unit, or $0.28 on an annualized basis, was declared for the months of January 2007 to December 2007, inclusive. After accounting for the value of units which were issued under the Distribution Reinvestment Plan of $374,192, the total distribution for 2007 was $20,141,386.

Cash Distribution Shortfall

As disclosed in the following summary, the total distributions of HREIT for 2007 exceeded distributable income by $1,788,882, cash from operating activities, by $9,186,446 and AFFO by $3,946,497.

	Year Ended December 31	
	2007	2006
Total distributions	$ 20,141,386	$ 18,931,533
Distributable income	$ 18,352,504	$ 14,700,094
Excess (deficiency) of distributable income over distributions	$ (1,788,882)	$ (4,231,439)
Cash provided by operating activities	$ 10,954,940	$ 9,505,080
Excess (deficiency) of distributions over cash provided by operating activities	$ (9,186,446)	$ (9,426,453)
Adjusted funds from operations	$ 16,194,889	$ 12,336,743
Excess (deficiency) of distributions over adjusted funds from operations	$ (3,946,497)	$ (6,594,790)

The shortfall between the cash distributions and cash provided by operating activities, was effectively funded from financing activities, or more specifically, from a portion of capital which has been raised from the convertible debenture and Trust unit offerings.

It is anticipated that operating cash flows should continue to increase as leasehold improvements are completed and overall occupancy levels and rental rates increase. Although the cash distribution is expected to continue to exceed cash provided by operating activities in 2008, it is anticipated that the shortfall between the cash distribution amount will be reduced or potentially eliminated over time, although there can be no assurance that this will be the case.

Investment Activities

Summary

During 2007, the net cash outflow in regard to investment activities amounted to approximately $50 Million. The investment activities consisted primarily of the acquisition of income properties, additional expenditures on properties under development and additions to building and equipment.

Property Acquisitions

During 2007, HREIT acquired a full or partial interest in 29 properties. As disclosed in the Note 3 to the financial statements, the net acquisition cost of the 29 properties, in the amount of $102,983,515, was funded by mortgage financing of $68,332,092, with the balance of $34,651,423 paid in cash.

Additions to Properties Under Development

During 2007, the cash outlay in regard to properties under development amounted to $3,542,726, comprised of a construction advance of $3,218,063 for the development of the East District Police Station and the cash outlay of $324,664 for a vacant lot in Flin Flon, Manitoba.

Additions to Building and Equipment

During 2007, the cash outlay in regard to additions to building and equipment amounted to $11,736,248, as disclosed in the following chart:

Asset Additions - Year Ended December 31, 2007

Southland Mall - contingent consideration (please refer to contingent considerations)	$	2,575,500
Portage Place - purchase price adjustment *	$	2,446,238
Portage Place - construction costs		6,119,656
Other		32,354
		11,173,748
Add: Speedvale contingent consideration included in accounts payable at December 31, 2006 and paid in 2007		562,500
Cash outlay - asset additions	$	11,736,248

* Funded from Portage Place purchase price adjustment escrow funds.

Cash Flow Summary

A summary of the cash flows of HREIT are provided in the following chart. As disclosed in the chart, the net cash outflow in regard to investment activities exceed the net cash inflow from financing activities, excluding distributions by approximately $1.4 million during 2007.

After providing for the cash inflow from operating activities and discontinued operations, and the cash outflow from distributions, the net cash decrease in 2007 was $9,782,906. After accounting for the opening cash balance of $22,149,645, HREIT completed 2007 with a cash balance of $12,366,739.

Cash Flow Analysis (note 1)

	2007	2006
Financing Activities:		
Mortgage proceeds	$ 34,182,632	$ 43,342,360
Proceeds from unit issues	10,000,080	-
Proceed of convertible debentures	48,300,000	-
Mortgage principal payments	(5,684,177)	(4,399,628)
Mortgage loan refinancing	(33,882,470)	-
Transaction costs	(3,253,086)	(1,411,685)
Issue costs	(1,030,553)	-
Total financing	48,632,426	37,531,047
Investing Activities:		
Property acquisitions	(34,651,423)	(31,280,953)
Asset additions (note 2)	(11,736,248)	(1,908,769)
Property under development	(3,542,726)	-
Deposits on potential acquisitions	(200,000)	-
Deposits refunded	100,000	960,000
Total investing	(50,030,397)	(32,229,722)
Net cash inflow (outflow) of investment capital	(1,397,971)	5,301,325
Discontinued operations	427,319	2,610,751
Operating activities	10,954,940	9,505,080
Cash distributions	(19,767,194)	(18,906,641)
Net cash inflow (outflow)	**(9,782,906)**	**(1,489,485)**
Cash, beginning of period	**22,149,645**	**23,639,130**
Cash, end of period	**$ 12,366,739**	**22,149,645**
Analysis of cash components		
Cash in escrow	4,788,546	17,349,937
Unrestricted cash	7,578,193	4,799,708
	$ 12,366,739	**22,149,645**

Note 1 - GAAP Measurements

The preceding cash flow analysis represents the re-formatting of balances from the Consolidated Statement of Cash Flows in the audited financial statements in order to provide Unitholders with direct depiction of the net inflow/outflow of investment capital, before considering the impact of operating activities and cash distributions. The components of financing activities, investing activities, operating activities and discontinued operations, as disclosed in the analysis, agree to the Consolidated Statement of Cash Flows with the exception of cash distributions which are excluded from financing activities and disclosed as a separate line item. The order of presentation of financing, investing, discontinued operations and operating activities also differs from the Consolidated Statement of Cash Flows, in order to derive the sub-total entitled "net inflow (outflow) of investment capital". Cash in escrow has also been deducted from the ending cash balance for purposes of disclosing the amount of unrestricted cash as of March 31, 2007 and December 31, 2006 (comparative is provided). Aside from the exclusion of cash distributions from financing activities and the sub-totals entitled "net inflow (outflow) of investment capital" and "uninvested cash", the analysis consists entirely of GAAP measurements.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

Capital Structure - December 31, 2007

	December 31, 2007	Percentage
Mortgage loans payable - principal amount	$ 327,320,628	58.2 %
Convertible debentures - face value	59,621,000	10.6 %
Equity raised - trust units (net of issue costs)	175,375,783	31.2 %
Total capitalization	$ 562,317,411	100.0 %

Trust units:	
Authorized	Unlimited
Issued	
- December 31, 2007	72,015,135
- March 19, 2008	72,324,407

Mortgage Loans Payable

December 31, 2007	$325,637,814
December 31, 2006	$264,701,327

Summary of Mortgage Loans Payable

Year of Maturity	Weighted Average Interest Rate	Amount December 31, 2007	Percentage of Total
2008	7.45 %	$ 67,208,418	20.53 %
2009	7.31 %	35,304,200	10.79 %
2010	7.25 %	32,577,528	9.95 %
2011	5.66 %	23,132,534	7.07 %
2012	5.88 %	54,021,086	16.50 %
2013	5.80 %	18,044,319	5.51 %
2015	5.08 %	17,562,548	5.37 %
2016	5.97 %	64,439,121	19.69 %
2017	5.72 %	9,605,985	2.93 %
2025	5.89 %	5,424,889	1.66 %
Principal amount		327,320,628	100.00 %
Transaction costs		(1,894,049)	
Mortgage premiums		211,235	
Net payable amount, December 31, 2007		$ 325,637,814	

Mortgage Loan Portfolio

The general policy of HREIT is to utilize mortgage loan financing to partially fund property acquisitions. The Declaration of Trust limits the total amount of the mortgage indebtedness of the Trust to 75% of the appraised value of the properties of the Trust.

The balance of mortgage loans payable, as of December 31, 2007, excluding mortgage premiums and transaction costs, increased by $62,948,077, compared to the balance as of December 31, 2006. The increase is comprised of the following amounts:

First mortgage loans assumed on new property acquisitions	$ 68,332,092
Mortgage loan financing arranged on new property acquisitions	9,580,850
Upward refinancing of mortgage loans	12,601,782
Proceeds of interim financing	12,000,000
Principal repayments:	
Regular monthly payments	(5,684,177)
Retirement of second and third mortgage financing (from debenture proceeds)	(20,970,000)
Retirement of upward refinanced first mortgage loans	(12,912,470)
	$ 62,948,077

The weighted average interest rate of the entire portfolio of mortgage loans decreased from 6.79% as of December 31, 2006 to 6.44% as of December 31, 2007.

Mortgage Loan Debt Ratio

During 2007, there was a modest decrease in the year end ratio of mortgage loans payable, relative to the total acquisition cost of the entire real estate portfolio with the debt ratio decreasing from 66% in 2006 to 65% in 2007. Although the mortgage loan debt ratio of new properties was approximately 66% in 2007, the overall mortgage loan debt ratio decreased as a result of the $5.7 million reduction in mortgage loan debt from regular monthly debt service payments and by the reduction of interim financing loan amounts.

In comparison to the gross book value of the property portfolio of HREIT, the ratio of mortgage loans payable decreased from 65% at December 31, 2006, to 59% at December 31, 2007. The decrease in the ratio reflects the increased use of equity and debenture financing in the acquisition of properties during 2007.

Debt Ratio, Including Debenture Debt

The year end ratio of mortgage loans payable and debenture debt, at face value, compared to gross book value, increased from 65% as of December 31, 2006 to 68% as of December 31, 2007. The increase mainly reflects an increase in the proportionate amount of convertible debenture debt due to the completion of the $48.3 Million debenture offering in the first quarter of 2007.

Special Debt Provisions

Vendor Take-Back Financing

The acquisition of Cityplace encompassed a $4 Million second mortgage loan at an interest rate of 6%. The loan does not require monthly payments as it is repayable in lump-sum instalments of $2 Million, plus accrued interest, on each of June 30, 2008 and June 30, 2009.

The acquisition of the portfolio of 11 properties which were acquired in the third quarter encompassed a $4.3 million second mortgage loan at an interest rate of 5%. The loan requires payments of interest only and matures July 19, 2012.

Interim Mortgage Loan Financing

HREIT utilizes short-term mortgage loan financing as a source of interim financing. The "interim" mortgage loan financing is typically secured by second mortgages registered against one or more properties and typically encompasses "interest-only" payments for a term of one to two years.

As of December 31, 2006, the mortgage loan debt of HREIT included $27.87 million of interim mortgage loan financing with a weighted average interest rate of 10.84%, $20.97 Million of which was repaid during the second quarter of 2007. During the third and fourth quarters of 2007, additional interim mortgage loan financing of $8.0 million was obtained. Accordingly, as of December 31, 2007, the mortgage loan portfolio of HREIT consists of $14.9 million of interim loan financing, at an interest rate of 11%, of which $6.9 million matures in 2008 and $8 million matures in 2009. The 2008 maturities include a $4 million loan which matured on January 1, 2008 and was renewed for a one year term.

Other Interest-Only Loans

As of December 31, 2007 the mortgage loan debt of HREIT also includes $22.6 million of interest-only mortgage loans which are secured by first or second charges registered against specific properties. The weighted average interest rate of the debt is 7.65% and $13,650,000 of the debt matures in 2008, $5,600,000 of the debt matures in 2009, and $3,363,154 matures in 2012.

Convertible Debentures

A summary of the debenture offerings which have been undertaken by HREIT since its inception date as a publicly listed entity, to December 31, 2007, is provided in the following chart.

Summary of Debenture Offerings

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued
March 22/05/March 22/10	A	8.0 %	$ 6,000,000
June 29/05/June 29/10	B	8.0 %	5,321,000
March 29/07/March 31/12	C	7.5 %	48,300,000
Face value of convertible debentures, December 31, 2007			59,621,000
Net accumulated accretion			2,105,866
Unamortized transaction costs			(2,569,718)
Book value of convertible debentures, December 31, 2007			$ 59,157,148
Allocation of book value:			
Debt component			$ 50,956,386
Equity component			10,770,480
Unamortized transaction costs			(2,569,718)
			$ 59,157,148

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments and is carried in the account, net of transaction costs. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating the cash flow, distributable income, and AFFO.

The allocation of the debt and equity component, for each debenture issue, is provided in note 12 of the audited financial statements.

Trust Units

Summary

A summary of the units, which have been issued by HREIT, and the total gross and net trust unit equity raised, is provided below, commencing as of December 31, 2005.

Issue Date	Description	Units Issued	Gross Equity Raised
Total - December 31, 2005		67,405,242	$ 176,815,302
June 1, 2006	Units issued on acquisition of Marion Street Business Park	275,000	825,000
December 2006	Units issued under DRIP *	11,243	24,892
Units outstanding, December 31, 2006		67,691,485	177,665,194
January 17, 2007	Units issued	4,166,700	10,000,080
January to December 2007	Units issued under DRIP *	156,950	374,192
Total - December 31, 2007		72,015,135	$ 188,039,466
Gross equity raised, per above			$ 188,039,466
Less: Issue costs			(12,663,683)
Total "Trust unit" equity per statement of equity			$ 175,375,783

* In accordance with the "Distribution Reinvestment Plan" of HREIT, Unitholders may choose to have monthly cash distributions automatically reinvested in additional units, while receiving a "bonus" distribution of units equal to 4% of the reinvested amount. Participants in the DRIP may also purchase additional units on a distribution payment date. The purchase price of the units will generally be equal to the weighted average closing price of the units for the five trading days immediately preceding the relevant distribution payment date.

Unit Option Plan

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of HREIT and to other individuals who are employed or retained by the Trust to perform specific duties. In accordance with generally accepted accounting principles, the estimated fair value of the options is expensed over the vesting period of the options and the expense is recorded as "unit-based compensation".

As of December 31, 2006, HREIT had granted options to acquire a total of 706,000 units, of which 102,000 were exercised. All unit-based compensation related to options which were issued prior to 2007 was fully expensed as of December 31, 2006.

During July 2007, HREIT granted options to its Trustees to acquire an aggregate of 900,000 units, at a price of $2.36 per unit. As the options are exercisable immediately, the estimated fair value of the options, in the amount of $38,871, was fully expensed during 2007.

As unit-based compensation is a "non-cash" expense, it does not impact the operating cash flows of the Trust.

Normal Course Issuer Bid

On January 16, 2008, HREIT announced its intention to make a normal course issuer bid for its trust units, over the 12 month period ending January 20, 2009 for up to 3,600,119 units, representing 5% of the issued and outstanding units, as of January 10, 2008. Purchases will be made at market prices through the facilities of the Exchange. Any units purchased by HREIT will be cancelled.

HREIT believes that the ongoing purchase of units, pursuant to the bid, is an appropriate use of HREIT's resources, given the disparity between the market price of the units and the underlying value of the units, as determined by HREIT. HREIT also believes that the purchase of units pursuant to the bid will benefit all remaining Unitholders by increasing their proportionate equity interest and voting interest in HREIT while affording liquidity to Unitholders.

As of March 1, 2008, the Trust has acquired 36,607 units under the normal course issuer bid, at a cost of $2.064 per unit or $69,365 in total. All 36,607 units have been cancelled.

Capital Requirements

General

On an annual basis, HREIT is generating sufficient cash from operating activities to fully fund mortgage loan principal payments and approximately 50% of its annual distributions. In 2007, the opening cash balance of the Trust was also sufficient to fund all capital improvements.

Contractual Obligations

Long-term Debt and Lease Payments

A summary of the long-term debt and operating lease obligations of HREIT for 2008 and for each of the next five years and thereafter, is provided in the following chart:

Summary of Contractual Obligations - Long-term Debt and Lease Payments

Payments Due by Period	Total	< 1 Year	2 - 3 Years	4 - 5 Years	> 5 Years
Mortgage loans	$ 327,320,628	$ 75,113,270	$ 73,610,562	$ 76,505,328	$ 102,091,468
Operating leases	768,752	195,749	404,907	168,096	-
	$ 328,089,380	$ 75,309,019	$ 74,015,469	$ 76,673,424	$ 102,091,468

To the extent that the amount due for mortgage loans includes the balance due on maturity, management intends to renew or refinance the amounts due, under similar terms and conditions, effective on the maturity date of the loans.

Leasehold Improvement and Major Renovation/Upgrades

The Trust is committed to incur approximately $6.5 Million of lease acquisition costs and long-term maintenance expenses of which approximately 74% pertanis to seven properties undergoing major capital replacement or improvement programs.

Capital Expenditures

HREIT is in the process of developing a new police station in Winnipeg, Manitoba. Based on a development cost of $12.5 million, the remaining capital commitment for the police station is $9.3 million. HREIT has arranged a $12.5 million first mortgage loan with RBC Life Insurance Company to be funded at completion of construction.

Sources of Capital

Short-term

As of December 31, 2007, the working capital balance of HREIT is $6,917,344, while the total cash balance is $12,366,739. After deducting cash in escrow, the unrestricted cash balance of the Trust is $7,578,193 as of December 31, 2007 and is mainly comprised of operating cash balance of the individual properties.

The refinancing of under-leveraged properties is expected to serve as the primary source of additional capital during 2008. Since December 31, 2007, new mortgage financing has contributed $0.8 Million in investment capital and interim financing has contributed $3.5 million.

Longer Term

In addition to the refinancing of under-leveraged properties HREIT will consider additional debenture or trust unit offerings as a source of investment capital. HREIT may also exchange trust units for real property acquisitions.

Contingent Considerations

As disclosed in note 25 of the audited financial statements, the purchase price for Cityplace encompassed a potential price increase in the event that actual income from three parking lots exceed predetermined levels. A specific amount for the potential price increase is not disclosed in the financial statements for this amount, as the amount of the potential price increase cannot be reasonably estimated.

There was also contingent consideration associated with the acquisition of Southland Mall, Crossroads Centre and Speedvale Centre. The additional cost for Southland Mall was finalized in 2007 and resulted in an increase in the purchase price of $2,575,500. For Crossroads and Speedvale, the additional cost was finalized in 2006, resulting in an increase in the purchase price of $96,682 and $562,500, respectively.

Trends

As a result of the positive impact of the property improvements, combined with the anticipated improvement in the financial results of stabilized properties, HREIT is expected to continue to experience growth in net operating income and cash from operating activities.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter Canadian")

Asset and Property Management Services

Shelter Canadian provides administrative and asset management services to HREIT, pursuant to the terms of a Services Agreement. The Services Agreement provides for the remuneration of Shelter Canadian to be established at a level which is commensurate with customary comparable market asset management fees, subject to the discretion of the Governance, Compensation and Nominating Committee of the Board of Trustees.

Commencing January 1, 2006, the Committee approved a monthly service fee equal to 0.3% of the net book value of the total assets of the Trust, excluding cash and accumulated amortization, as of the date of the most recently issued financial statements. The current term of the existing fee arrangement expires on March 31, 2008. Payment of the fee occurs on a monthly basis, on the last day of each month. During 2007, the fee amounted to $1,353,400.

Shelter Canadian is also the Property Manager for HREIT, pursuant to the Property Management Agreement. Shelter Canadian has a direct involvement in the management of all of the income properties in the portfolio of HREIT and acts as Asset Manager and Property Manager for the majority of the properties. The on-site property management function is sub-contracted for certain properties in order to maintain continuity between the tenants and the incumbent Property Manager or due to such factors as the remoteness of the property location or the nature of the acquisition process. As indicated in note 22 of the financial statements, total property management fee payments to Shelter were $1,763,734 in 2007.

Mr. Arni Thorsteinson, the President and Chief Executive Office of HREIT and a Trustee, is a Director and President of Shelter Canadian and the President of the parent corporation of Shelter Canadian, 2668921 Manitoba Ltd. As of February 2007, the Governance, Compensation and Nominating Committee is comprised of all of the independent Trustees of HREIT. Prior to February 2007, Mr. Thorsteinson was a member of the Governance and Compensation Committee and, as such, Mr. Thorsteinson abstained from all discussions and voting in regard to the approval of the service fee.

Consolidated Real Estate Services Inc. (CRESI)

Shelter Canadian provides executive management services to CRESI, with executive personnel of Shelter Canadian acting in the capacity of President and Vice President of CRESI and serving as directors, and with a senior employee of Shelter Canadian fulfilling the position of the Regional Manager for the Western Canada commercial property portfolio of CRESI.

Other Shelter Canadian employees provide assistance to CRESI in various capacities, including supervision of website design services provided by a third party contractor, website maintenance, supervision of payroll and benefit administration, operating policy development, placement and administration of property insurance and marketing. For providing the additional services, Shelter Canadian receives an annual cost recovery fee of $150,000 per annum.

220 Portage Avenue, 365 Hargrave Street and Five Parking Lots

In July 2007, HREIT acquired a 50% beneficial interest in 220 Portage Avenue and a 100% beneficial interest in 365 Hargrave Street and five parking lots, including the 8% beneficial interest which was held by Shelter Canadian Properties Limited.

The acquisition of the two properties and five parking lots was approved by the independent trustees of HREIT. Mr. Thorsteinson abstained from voting on the resolution approving the transaction.

The above noted transaction was was exempt from the formal valuation and minority security holder approval requirements of Policy 5.9 of the Exchange and applicable securities laws due to the fact that the acquisition of the property represents less than 20% of the current market capitalization of HREIT. The Shelter portion of the purchase price represents less than 1.5% of the current market capitalization of HREIT.

Airport Place

In March 2007, HREIT acquired a 50% beneficial interest in Airport Place from unrelated third parties. The remaining 50% beneficial interest is owned by 2668921 Manitoba Limited.

The acquisition of the 50% beneficial interest at Airport Place was approved by the independent trustees of HREIT. Mr. Thorsteinson abstained from voting on the resolution approving the transaction. The acquisition of the 50% beneficial interest is not a related party transaction under GAAP.

Paramount/Hoka Properties

On March 29, 2007, HREIT acquired a 25% beneficial interest in two industrial properties in Winnipeg (61 - 155 Paramount Road and 60 - 94 Hoka Street) from an unrelated third party. The remaining 75% beneficial interest is owned by 2668921 Manitoba Limited.

The acquisition of the 25% beneficial interest in the two industrial properties was approved by the independent trustees of HREIT. Mr. Thorsteinson abstained from voting on the resolution approving the transaction. The acquisition of the 25% beneficial interest is not a related party transaction under GAAP.

Development of Police Station in Winnipeg

In September 2007, HREIT was selected by the City of Winnipeg to develop and maintain ownership of a new 33,000 square foot police station to be constructed by Bird Construction Income Fund (Bird Construction) at a fixed price of $12.5 Million. Shelter Canadian Properties Limited is acting as the property developer. The fixed price of $12.5 Million includes a development fee to Shelter Canadian in the amount of $200,000. The development/construction was a joint submission to the City of Winnipeg by Bird Construction and Shelter Canadian Properties Limited, as a private developer and the asset manager of HREIT. Although, Mr. Arni Thorsteinson and Mr. Greg Doyle are on the Board of Trustees of Bird Construction, the construction contract is not a related party transaction under GAAP.

CHANGES IN ACCOUNTING POLICIES

New Accounting Standards Adopted January 1, 2007

Effective January 1, 2007, HREIT adopted five new accounting standards that were issued by the CICA. In general, the new accounting standards address the disclosure of comprehensive income, the recognition measurement, disclosure and presentation of financial instruments, the presentation of equity and the accounting treatment for accounting changes.

Comprehensive Income

In accordance with the new accounting standards, the consolidated Statements of Loss of HREIT now disclose the "comprehensive" income or loss of the Trust. The comprehensive income or loss includes the income or loss of the Trust for the period, plus "Other Comprehensive Income" (OCI). OCI generally includes unrealized gains or losses on financial assets classified as available for sale, unrealized foreign currency adjustments and changes in the fair value of hedging instruments. As applicable, the financial statements of HREIT will include a Statement of Other Comprehensive Income, while the accumulated amount of Other Comprehensive Income (AOCI) will be presented as a category of Unitholders' Equity.

As the Trust does not have any amounts classified as OCI, the comprehensive income/loss of the Trust in 2007 and 2006 is the same as the income/loss for the period.

Financial Instruments

In accordance with the new accounting standards, all financial instruments are to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on the classification of the financial instrument.

The classification of all of the financial instruments of HREIT is disclosed in note 2 of the audited financial statements. As disclosed in note 2, all of the financial instruments of HREIT are being measured at "amortized cost" with the exception of cash and the mortgage loan swap agreement which are measured at fair value.

The new accounting standards for financial instruments also address the treatment of transaction costs. As disclosed in the section of this report entitled "Changes in Accounting Policies and Estimates Affecting Annual Comparisons", transaction costs which were previously included in "Deferred Charges", and amortized over the term of the mortgage loan or debenture debt, were reclassified as a reduction to mortgage loan payable and convertible debenture debt, effective January 1, 2007. The costs are now being amortized over the expected life of the financial instrument using the effective interest rate method.

In total, $2,038,801 of deferred financing costs were reclassified during 2007, comprised of a $1,598,518 reduction to the carrying value of mortgage loans payable and a $440,283 reduction to the debt component of convertible debentures. The Trust also recorded a transition adjustment to reduce the opening balance of cumulative earnings at January 1, 2007 by $67,725 in recognition of the change in reporting transaction costs.

A transition adjustment of $863,435 was also recorded to reduce the opening balance of cumulative earnings in regard to the change in accounting standards for measuring the interest rate swap agreement.

Equity

As noted above, the Trust does not have any amounts classified as OCI and as a result, there were no significant changes to the Consolidated Statements of Equity in 2007.

Accounting Changes

The detailed explanation of the changes in accounting policies, as disclosed in note 2 of the audited financial statements, reflects the new standards for the treatment and disclosure of accounting changes.

Future Changes to Accounting Standards

Effective January 1, 2008, the Trust adopted three additional new accounting standards pursuant to Canadian GAAP. In general, the new accounting standards address the presentation of financial instruments and non-financial derivatives and the disclosure requirements in regard to the objectives, policies and processes of the Trust for managing capital.

Management is currently considering the affect of the new standards on the financial statements of the Trust.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of HREIT encompasses the risks which are inherent in the ownership and operation of a portfolio of commercial properties, as well as the normal risks which are associated with an investment in a real estate investment trust.

The key risks include the following:

General

The properties of HREIT are subject to the normal risks common to real property ownership and operation, including the risk of a reduced demand for leased premises due to changes in general economic conditions, local real estate markets, competition from other available premises and various other factors. A reduction in demand would affect both the rental revenues of the income-producing properties and the management fees of CRESI. In order to minimize the general market risk and achieve stable or increasing average rental rates combined with acceptable occupancy levels, HREIT focuses on tenant retention and the marketing of vacant space through both the brokerage community and internal resources. HREIT further decreases its operating risk through property and geographic diversification, diversification of tenancies and staggered lease maturities. The risk of revenue losses due to defaults by commercial tenants in respect of lease obligations, is minimized by leasing to tenants with strong financial covenants with the rights of the Landlord strongly entrenched in contractual agreements. The risk of credit loss is also mitigated by limiting exposure to any one tenant. As disclosed in the Revenue Analysis in this Report, the amount of space which is leased to a single tenant does not exceed 10% of the total leasable space of the Trust.

Payment of Cash Distributions

A return on an investment in units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in units is at risk, and the return on an investment in units is based on many performance assumptions. The ability of HREIT to continue to pay distributions which are in excess of its Distributable Income is dependent upon the level of cash reserves, the debt covenants and obligations of the Trust, the working capital requirements of the Trust and the future capital requirements of the Trust. Cash distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if HREIT is unable to provide a satisfactory return to Unitholders.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The units will not necessarily trade at values determined solely by reference to the value of the properties of HREIT. Accordingly, the units may trade at a premium or a discount to the value implied by the value of the properties of HREIT. The market price for the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of HREIT.

Closing of Proposed Acquisitions

The continued growth of HREIT will depend on management's ability to identify opportunities for future property acquisitions, to acquire the properties and to successfully integrate the acquired properties. Management's ability to generate growth from property acquisitions may be affected by elevated acquisition costs, funding of the acquisitions, unexpected liabilities with regards to the properties and other problems related to the integration of the properties. Management's failure to successfully grow through future property acquisitions could adversely affect HREIT's financial condition, net income from operation and its ability to generate cash available for distribution.

Concentration of HREIT's Portfolio in One Market

The property portfolio of HREIT has significant exposure to the commercial real estate market in Winnipeg, Manitoba, primarily in the industrial and office sectors.

As of December 31, 2007, the percentage of properties located in Winnipeg is as follows:

	Percentage of Total Acquisition Costs	Percentage of Total Leasable Space
Office	80.1%	82.3%
Industrial	43.1%	57.6%
Retail	9.6%	14.5%
Total	46.2%	49.5%

Changes to Tax Treatment of Trusts

HREIT currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, HREIT is required to distribute an amount equal to not less than all of its taxable income to its Unitholders and to deduct these distributions for income tax purposes.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The New SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, HREIT may increase its equity capital by $50 Million for each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, HREIT's equity capital has not increased beyond the Safe Harbour Limit.

The New SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its income and investments (the "REIT Conditions"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. Accordingly, HREIT is subject to the New SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, HREIT will be subject to the tax on distributions commencing in 2011. Prior to 2011, HREIT will consider its alternatives, including restructuring its affairs to qualify as a Qualifying REIT. However, no assurances can be given that any reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to HREIT and its Unitholders. In addition, no assurance can be given that HREIT's equity capital will not increase beyond the Safe Harbour Limit prior to 2011.

Relationship with Shelter Canadian

The financial performance of HREIT will depend in part on the performance of Shelter Canadian in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

Reliance on Key Personnel

The success of HREIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on HREIT.

Other

Other risks and uncertainties are more fully explained in the other regulatory filings of HREIT, including the Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies of HREIT are disclosed in Note 2 of the audited financial statements as of December 31, 2007. As disclosed in Note 2 to these financial statements, the application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- the allocation of the purchase price of properties among the various assets acquired based on estimated replacement costs at the date of purchase and deducting the estimated depreciation based on an estimate of the renewing useful life of the property acquired;

- the recoverability of operating costs and taxes which are subject to confirmation with the tenant;

- the determination of the amount of temporary differences, the timing of reversal and the tax rate to be used in calculating future income tax assets and liabilities;

- the allocation of convertible debentures between debt and equity based on the estimated fair value of the debt; and

- the establishment of value of unit options granted.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

TAXATION

Taxation of HREIT

HREIT is generally subject to tax in Canada under the Income Tax Act (The "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by HREIT for tax purposes.

Pursuant to the Declaration of Trust of HREIT, the Trustees intend to distribute or designate all taxable income directly earned by HREIT to the Unitholders of the Trust in order to ensure that HREIT will not be subject to income tax under Part I of the Tax Act.

Taxation of Unitholders

A Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of HREIT paid or payable to the Unitholder in the year. The Declaration of Trust generally requires HREIT to claim the maximum amount of capital cost allowance for purposes of computing its income for tax purposes. The cash distributions which have been paid to the Unitholders, since the inception of HREIT as a real estate investment trust in 2005, have exceeded the income of HREIT, as calculated for income tax purposes. Distributions in excess of the taxable income of HREIT are allocated to the Unitholder for the year and will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Controls and Procedures

Disclosure Controls

The management of HREIT, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures for the Trust. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding disclosure.

The CEO and CFO evaluated the effectiveness of the disclosure controls and procedures of HREIT (as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 and have concluded that the controls and procedures are operating effectively.

Internal Controls over Financial Reporting

The management of HREIT, including the CEO and CFO are also responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

An assessment of the design of the internal controls over financial reporting for HREIT (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2007 was conducted by management of HREIT under the supervision of the CEO and CFO. Based on that assessment, management has determined that the internal controls over financial reporting were appropriately designed.

No changes were made to the design of the internal controls over financial reporting during the three months ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances; or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to HREIT is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2007 Annual Report of HREIT and the delivery of the report to the Unitholders have been approved by the Trustees.

HUNTINGDON REAL ESTATE INVESTMENT TRUST
March 19, 2008

MANAGEMENT'S RESPONSIBILITY

The financial statements and management's discussion and analysis contained in the annual report are the responsibility of the management of Huntingdon Real Estate Investment Trust. To fulfill this responsibility, management maintains systems of internal control which are designed to give reasonable assurance that transactions are authorized and properly recorded, assets are safeguarded and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements and other financial reports. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best estimates and judgment in the circumstances.

The financial statements have been reviewed and approved by the Board of Trustees and by the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are engaged to audit the financial statements in accordance with Canadian generally accepted auditing standards and provide an independent auditor's opinion.

"Arni C. Thorsteinson"

Arni C. Thorsteinson
Chief Executive Officer

"Larry J. Beeston"

Larry J. Beeston
Chief Financial Officer

March 19, 2008

Scarrow & Donald LLP

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
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www.scarrowdonald.mb.ca

March 14, 2008

AUDITORS' REPORT

To the Unitholders of
Huntingdon Real Estate Investment Trust:

We have audited the consolidated balance sheets of Huntingdon Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED BALANCE SHEETS

	December 31 2007	December 31 2006
Assets		
Income properties (Note 4)	**$451,211,606**	$356,023,355
Deferred charges (Note 5)	**33,203,054**	25,751,574
Cash (Note 6)	**12,366,739**	22,149,645
Other assets (Note 7)	**15,904,143**	6,454,033
Intangible assets (Note 8)	**12,959,338**	11,936,213
Assets of discontinued operations (Note 9)	**-**	313,753
Acquisition asset (Note 10)	**34,005,840**	34,765,997
	$559,650,720	$457,394,570
Liabilities and Equity		
Mortgage loans payable (Note 11)	**$325,637,814**	$264,701,327
Accounts payable and accrued liabilities	**12,838,333**	8,506,385
Convertible debentures (Note 12)	**48,386,668**	9,316,092
Intangible liabilities (Note 13)	**2,226,976**	2,704,807
Acquisition liability (Note 10)	**34,005,840**	34,765,997
	423,095,631	319,994,608
Equity	**136,555,089**	137,399,962
	$559,650,720	$457,394,570

Approved by the Board of Trustees

"Arni C. Thorsteinson"

"Greg Doyle"

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31	
	2007	**2006**
Revenue		
Rentals from income properties (Note 14)	**$ 70,982,666**	$ 52,982,797
Interest and other income	**1,451,816**	830,661
Property management revenue	**2,994,963**	3,517,390
	75,429,445	57,330,848
Expenses		
Property operating costs	**28,854,057**	21,885,272
Property management costs	**2,712,031**	2,680,953
	31,566,088	24,566,225
Operating income	**43,863,357**	32,764,623
Financing expense (Note 15)	**24,562,887**	15,410,033
Trust expense	**2,360,203**	2,114,757
Amortization	**19,956,139**	16,166,821
	46,879,229	33,691,611
Income (loss) from continuing operations before taxes	**(3,015,872)**	(926,988)
Income tax recovery (expense) (Note 16)	**3,755,864**	(59,600)
Income (loss) from continuing operations	**739,992**	(986,588)
Income from discontinued operations (Note 9)	**139,714**	911,906
Income (loss) and comprehensive income (loss)	**$ 879,706**	$ (74,682)
Income (loss) per unit (Note 19)		
Basic		
Continuing operations	**$ 0.010**	$ (0.015)
Discontinued operations	**0.002**	0.014
Total	**0.012**	(0.001)
Diluted		
Continuing operations	**0.010**	(0.015)
Discontinued operations	**0.002**	0.014
Total	**$ 0.012**	$ (0.001)

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31	
	2007	**2006**
Trust units (Note 20)		
Balance, beginning of period	**$166,032,064**	$165,182,172
Issuance of trust units	**10,000,080**	825,000
Value associated with DRIP units	**374,192**	24,892
Unit issue costs	**(1,030,553)**	-
Balance, end of period	**175,375,783**	166,032,064
Unit options (Note 21 and 22)		
Balance, beginning of period	**178,790**	210,332
Value associated with unit options granted	**58,330**	19,620
Value associated with unit options expired	**-**	(51,162)
Balance, end of period	**237,120**	178,790
Equity component of convertible debentures (Note 12)		
Balance, beginning of period	**2,686,432**	2,686,432
Equity component of convertible debentures issued	**8,084,048**	-
Balance, end of period	**10,770,480**	2,686,432
Cumulative earnings and total accumulated comprehensive earnings		
Balance, beginning of period	**459,431**	482,951
Value associated with swap mortgage adjustment (Note 2)	**863,435**	-
Value associated with unit options expired	**-**	51,162
Implementation of accounting policy change (Note 2)	**67,275**	-
Income (loss)	**879,706**	(74,682)
Balance, end of period	**2,269,847**	459,431
Cumulative distributions to unitholders		
Balance, beginning of period	**(31,956,755)**	(13,025,222)
Distribution to unitholders	**(20,141,386)**	(18,931,533)
Balance, end of period	**(52,098,141)**	(31,956,755)
Total unitholders' equity	**$136,555,089**	$137,399,962
Units issued and outstanding (Note 20)	**72,015,135**	67,691,485

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2007	2006
Cash provided by (used in) operating activities		
Income (loss) from continuing operations	$ 739,992	$ (986,588)
Items not affecting cash		
Accrued rental revenue (Note 14)	(1,063,117)	(1,024,628)
Amortization of above market in place leases (Note 8)	508,517	686,533
Amortization of below market in place leases (Note 13)	(1,143,832)	(1,339,521)
Amortization	19,956,139	16,166,821
Change in fair value - swap asset (Note 7)	(7,010)	-
Amortization of mortgage premiums (Note 11)	(117,541)	(112,246)
Amortization of transaction costs	895,396	-
Unit-based compensation (Note 21 and 22)	58,330	19,620
Future income taxes (Note 16)	(3,831,891)	(247,800)
Accretion of the debt component of convertible debentures (Note 12)	1,408,946	432,740
	17,403,929	13,594,931
Expenditures on lease acquisition costs	(5,685,198)	(4,327,459)
Expenditures on maintenance costs	(2,651,711)	(1,997,487)
Changes in non-cash operating items	1,887,920	2,235,095
	10,954,940	9,505,080
Cash provided by (used in) financing activities		
Proceeds of mortgage loan financing	34,182,632	43,342,360
Proceeds of convertible debentures (Note 12)	48,300,000	-
Proceeds from unit issues	10,000,080	-
Debt repaid on refinancing	(33,882,470)	-
Expenditures on transaction costs	(3,253,086)	(1,411,685)
Issue costs	(1,030,553)	-
Debt principal repaid	(5,684,177)	(4,399,628)
Distributions paid	(19,767,194)	(18,906,641)
	28,865,232	18,624,406
Cash provided by (used in) investing activities		
Income properties acquired (Note 3)	(34,651,423)	(31,280,953)
Additions to properties under development	(3,542,726)	-
Additions to building and equipment	(11,736,248)	(1,908,769)
Deposits on potential acquisitions	(200,000)	-
Deposits applied	100,000	-
Deposits refunded	-	960,000
	(50,030,397)	(32,229,722)
Sub-total	(10,210,225)	(4,100,236)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2007	2006
Balance forward	(10,210,225)	(4,100,236)
Cash provided by (used in) discontinued operations (Note 9)		
Cash flow from operations	(3,962)	52,081
Proceeds of mortgage financing	-	782,773
Expenditures on deferred financing charges	-	(5,116)
Debt principal paid	-	(44,464)
Proceeds of sale	431,281	1,825,477
	427,319	2,610,751
Decrease in cash	(9,782,906)	(1,489,485)
Cash, beginning of period	22,149,645	23,639,130
Cash, end of period	$ 12,366,739	$ 22,149,645
Supplementary cash flow information		
Interest paid on mortgage financing	$ 17,235,962	$ 13,743,015
Interest paid on debentures	$ 2,741,742	$ 905,680
Income taxes paid	$ 76,027	$ 136,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

1 *Organization*

Huntingdon Real Estate Investment Trust ("the Trust") is a closed-end real estate investment trust which was created under a Declaration of Trust dated January 10, 2005.

2 *Significant accounting policies*

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements reflect the operations of the Trust and its wholly owned subsidiary, Consolidated Real Estate Services Inc.

Income properties
Income properties include land and buildings and fixtures of the real estate investments and furniture and equipment of Consolidated Real Estate Services Inc.

Income-producing properties are carried at cost. If events or circumstances indicate that the carrying value of the income-producing properties may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing properties are written down to estimated fair value and an impairment loss is recognized.

Amortization on buildings and fixtures is recorded on a straight-line basis over the remaining useful life (13 to 55 years).

Amortization on furniture and equipment is recorded on a straight-line basis over five years.

Deferred charges
Deferred charges include lease acquisition costs (tenant inducements and leasing expenses), and maintenance expenditures. Lease acquisition costs are deferred and amortized on a straight-line basis over the term of the respective leases. Maintenance expenditures are amortized on a straight line basis over the period during which they are recovered from tenants or, if the expenditure is not recoverable, over the estimated useful life.

In accordance with Canadian generally accepted accounting principles a portion of the purchase price on the purchase of a rental property shall be allocated to deferred charges to reflect the tenant origination costs (tenant inducements and leasing expenses) associated with in place leases. Similarly, a portion of the purchase price of Consolidated Real Estate Services Inc. has been allocated to deferred charges to reflect the value of in place management contracts.

Intangible assets and liabilities
In accordance with Canadian generally accepted accounting principles, a portion of the purchase price of a rental property shall be allocated to intangible assets and intangible liabilities to reflect the cost of lease origination costs; tenant relationships; above market leases and below market leases. Intangible assets and liabilities are amortized over the term of the tenant leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2 *Significant accounting policies (continued)*

Discontinued operations
A property is classified by the Trust as held for sale on the consolidated balance sheets when the property is available for immediate sale; management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset; and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and net realizable value, less selling costs. No amortization is recorded on these properties once classified as held for sale. The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations. The operations and cash flows of the property can be clearly distinguished, operationally and for financial purposes and has been reported in discontinued operations.

Derivative financial instruments
Derivative financial instruments are utilized to reduce interest rate risk on the Trust's debt. The Trust does not enter into financial instruments for trading or speculative purposes.

Interest rate swap agreements are used as part of the Trust's program to manage the fixed and floating interest rate mix of the Trust's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the related debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

Gains and losses on terminations of interest rate swap agreements are deferred and recorded as other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of operations at the time of extinguishment.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 12. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

Revenue recognition
Rents are recognized as revenue over the terms of the related lease agreements. Rental revenue from leases with contractual rent increases are recognized on a straight-line basis over the term of the respective leases. Recoveries from tenants for property operating costs and property taxes are recognized as revenues during the period in which the applicable costs are incurred. Interest revenue is recognized on a time proportion basis. Property management revenue is recognized as services are provided in accordance with the management contracts.

2 *Significant accounting policies (continued)*

Income taxes

The Trust uses the liability method of accounting for income taxes where by the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

The Trust follows taxation rules for a mutual fund trust for income tax purposes. In accordance with the terms of the Declaration of the Trust, the Trust shall distribute its income for income tax purposes each year by an amount which is sufficient to ensure that the Trust will not be liable for income taxes under Part I of the Income Tax Act. As a result, there were no future income tax assets or liabilities to be recognized from operations of the Trust.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trust was substantially enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). In the opinion of management, the Trust does not currently satisfy the prescribed conditions. The new legislation is not expected to apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. Prior to 2011, the Trust will consider its alternatives, including restructuring its affairs in order to meet the prescribed conditions and become a Qualifying REIT.

As the Trust does not currently meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability calculation and estimates reflect its current income tax status, notwithstanding the intent of the Trust to become a Qualifying REIT prior to 2011.

Consolidated Real Estate Services Inc., a wholly owned subsidiary of the Trust is an operating business and provides for income tax expense using the liability method as noted above.

Net income per unit

Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2 *Significant accounting policies (continued)*

Unit options

The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized when unit options are granted. On the exercise of unit options, consideration received and the accumulated unit option value is credited to the Trust units. Awards of options related to private placement or public offerings of units are treated as unit issue costs.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates, and as adjustments become necessary, the adjustments are reported in earnings in the period in which the adjustments become known.

Management has determined that significant items subject to such estimates include the allocation of the purchase price of properties; the recoverability of operating costs and property taxes and the remaining useful life of capital assets acquired.

Change in accounting policy

On January 1, 2007, the Trust adopted five new accounting standards that were issued by the CICA. Handbook Section 1530 - Comprehensive Income, Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges, Handbook Section 3861 - Financial Instruments - Disclosure and Presentation, Handbook Section 3251 - Equity, and Handbook Section 1506 - Accounting Changes. As required, the new standards are applied retroactively without restatement. The CICA also issued handbook section 3865 - Hedges, however The Trust does not have any hedging transactions.

Comprehensive income, CICA Handbook Section 1530

Comprehensive income includes net income and other comprehensive income ("OCI"). OCI generally includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Trust's financial statements will include a statement of other comprehensive income for any items included in OCI while the cumulative amount and accumulated other comprehensive income ("AOCI"), will be presented as a category of unitholders' equity.

Financial instruments - Recognition and Measurement, CICA Handbook Section 3855

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2 ***Basis of presentation (continued)***

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. For other financial instruments, transaction costs are capitalized on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and other financial liabilities (other than those held-for-trading) are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are recorded on the balance sheet at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net earnings, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in OCI.

The Trust may designate any financial instrument whose fair value can be reliably measured as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855.

The standard specifically excludes Section 3065 - Leases, from the definition of financial instruments, except for derivatives that are embedded in a lease contract. Other significant accounting implications arising on adoption of the standard include the initial recognition of certain financial guarantees at fair value on the balance sheet (no subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative), and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Upon adoption of these standards, the Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash	Held-for-trading	Fair value
Other assets:		
Amounts receivable	Loans and receivable	Amortized cost
Future rent receivable	Loans and receivable	Amortized cost
Interest rate swap	Held-for-trading	Fair value
Acquisition asset	Held-to-maturity	Amortized cost
Mortgage loans payable	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost
Acquisition liability	Other financial liabilities	Amortized cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2 ***Basis of presentation (continued)***

Equity, CICA Handbook Section 3251

With the introduction of the new standards relating to financial instruments, the CICA has replaced previous Section 3250 - Surplus with Section 3251 - Equity. This new section establishes standards for the presentation of equity and changes in equity during the reporting period.

Financial Instruments - Disclosure and Presentation, CICA Handbook Section 3861

This Section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This Section also deals with disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

Accounting Changes, CICA Handbook Section 1506

The objective of this Section is to prescribe the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Impact of adopting changes in accounting policies

As a result of adopting the above standards:

- The Trust recorded a transition adjustment of $863,435 to the opening balance of cumulative earnings and total accumulated comprehensive earnings in recognition of an interest rate swap derivative financial instrument. There is no transition adjustment attributable to the above standards recognized in the opening balance of AOCI at January 1, 2007.
- The Trust recorded a transition adjustment of $67,275 to the opening balance of cumulative earnings and total accumulated comprehensive earnings in recognition of the change in reporting transaction costs relating to mortgages and convertible debentures. There is no transition adjustment attributable to the above standards recognized in the opening balance of AOCI at January 1, 2007.
- Effective, January 1, 2007, financial liabilities are reduced by related deferred financing cost considered to be transaction costs that were previously disclosed as a component of deferred costs. Deferred financing costs of $2,038,801 that were related to outstanding debt at December 31, 2006, have been reclassified by reducing mortgages and convertible debentures by $1,598,518 and $440,283 respectively. As required by the accounting standards, prior year comparative figures have not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2 *Basis of presentation (continued)*

Future changes to significant accounting policies

CICA Handbook Sections 3862 - Financial Instruments - Disclosures and 3863 - Financial Instruments - Presentation will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These Sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Handbook Section 3855 - Financial Instruments - Recognition and Measurement, Handbook Section 3865 - Hedges. The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

CICA Handbook Section 1535 - Capital Disclosures will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The section will require the Trust to disclose information that enables users of its financial statements to evaluate the Trust's objectives, policies and processes for managing capital.

Management is currently considering the effect on the financial statements of the new standards.

3 *Acquisitions*

During the year, the Trust acquired 24 rental properties and 5 parking lots (2006 - 10 properties). Schedule 1 attached provides a summary of such acquisitions. The net assets acquired in the transactions are as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Land	$ 21,847,265	$ 11,094,550
Building and fixtures	67,884,714	112,544,135
Deferred charges		
Tenant inducements	5,658,100	5,634,446
Leasing expenses	1,700,600	1,449,400
Recoverable expenditures	110,800	
Future rent receivable	2,216,400	
Intangible assets		
Lease origination costs	2,298,200	4,102,150
Tenant relationships	1,796,593	516,285
Above market in-place leases	360,200	1,618,050
Intangible liabilities		
Below market in-place leases	(666,000)	(824,950)
Working capital, net	(223,357)	(47,855)
	$ 102,983,515	$ 136,086,211
Consideration:		
Cash used to acquire properties	$ 34,651,423	$ 31,280,953
Deposits applied to purchases	-	5,600,000
Units issued	-	825,000
Mortgage financing	68,332,092	98,380,258
	$ 102,983,515	$ 136,086,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

4 *Income properties*

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Land	$ 68,528,091	$ -	$ 68,528,091
Buildings and fixtures	394,693,721	(21,624,882)	373,068,839
Furniture and equipment	201,506	(142,443)	59,063
Properties under development	9,555,613	-	9,555,613
	$472,978,931	$ (21,767,325)	$451,211,606

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Land	$ 46,680,826	$ -	$ 46,680,826
Buildings and fixtures	314,101,713	(10,836,291)	303,265,422
Furniture and equipment	167,794	(103,574)	64,220
Properties under development	6,012,887	-	6,012,887
	$366,963,220	$ (10,939,865)	$356,023,355

Amortization of income properties consists of the following:

	Year Ended December 31	
	2007	2006
Buildings and fixtures	$ 10,788,591	$ 8,406,348
Furniture and equipment	38,868	59,572
	$ 10,827,459	$ 8,465,920

5 *Deferred charges*

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 20,916,779	$ (7,202,189)	$ 13,714,590
Leasing expenses	5,621,602	(1,588,594)	4,033,008
Management fees	3,915,222	(1,232,897)	2,682,325
	30,453,603	(10,023,680)	20,429,923
Financing costs	-	-	-
Lease acquisition costs	10,589,321	(1,879,550)	8,709,771
Maintenance expenditures	4,828,963	(765,603)	4,063,360
	$ 45,871,887	$ (12,668,833)	$ 33,203,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

5 *Deferred charges (continued)*

December 31, 2006

	Cost	Accumulated Amortization	Net book Value
Amounts recorded on acquisitions			
Tenant inducements	$ 15,258,679	$ (3,918,221)	$ 11,340,458
Leasing expenses	3,921,002	(828,558)	3,092,444
Management fees	3,915,222	(1,009,281)	2,905,941
	23,094,903	(5,756,060)	17,338,843
Financing costs	2,676,886	(638,085)	2,038,801
Lease acquisition costs	4,904,123	(409,847)	4,494,276
Deferred maintenance costs	2,177,252	(297,598)	1,879,654
	$ 32,853,164	$ (7,101,590)	$ 25,751,574

Amortization of deferred charges consists of the following:

	Year Ended December 31 2007	Year Ended December 31 2006
Amounts recorded on acquisitions		
Tenant inducements	$ 3,283,968	$ 2,890,313
Leasing expenses	760,037	641,709
Management fees (a)	223,616	732,698
	4,267,621	4,264,720
Financing costs	-	465,637
Lease acquisition costs	1,475,785	399,440
Maintenance expenditures	461,923	265,994
	$ 6,205,329	$ 5,395,791

(a) During 2006, several property management agreements were terminated resulting in an adjustment to the estimated useful life of the deferred management fees and a $477,739 adjustment to amortization expense.

6 *Cash*

Cash includes cash in escrow and cash reserve deposits are as follows:

Purpose of Escrow/Reserve	December 31 2007	December 31 2006
Construction and tenant acquisition costs	$ 1,319,340	$ 10,116,321
Revenue or income supplement	1,828,157	4,137,190
Capital improvement reserves	1,342,049	596,426
Deposits to secure letters of credit	299,000	-
Purchase price hold backs	-	2,500,000
	$ 4,788,546	$ 17,349,937

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7 *Other assets*

	December 31 2007	December 31 2006
Amounts receivable	$ 6,216,033	$ 2,529,213
Amounts receivable - property management	16,251	240,067
Future income tax asset	3,591,891	-
Interest rate swap	870,445	-
Accrued interest	-	58,745
Prepaid expenses	573,452	455,350
Prepaid construction costs	-	1,657,576
Future rent receivable	2,216,400	256,528
Deposits on potential acquisitions	200,000	100,000
Straight line rent receivable	2,219,671	1,156,554
	$ 15,904,143	$ 6,454,033

Interest Rate Swap
The Trust has entered into an interest rate swap arrangement whereby a floating interest rate mortgage has been swapped with a fixed rate mortgage. The interest rate swap is a derivative financial instrument and is recorded on the balance sheet at fair value. The change in the fair value is recognized in net income. For the period ended December 31, 2007 $7,010 related to the increase in the value of the swap asset has been recorded in financing expense; (2006 - nil) (Note 15).

Future Rent Receivable
In accordance with the purchase and sale agreement for Century Business Park, 555 Madison, 220 Cree, 1695 Sargent and 2595 McGillivray; the vendor is responsible for paying future rents until responsibility for paying rent is assumed by a bona fide tenant. In this regard, $2,216,400 of the purchase price was allocated to future rent receivable to reflect the estimated rent receivable from the vendor.

In accordance with the purchase and sale agreement for 1250 Steeles Avenue, Portage Place, Lincoln Centre. and Crossroads Centre; the vendor is responsible for paying future rents until responsibility for paying rent is assumed by a bona fide tenant. In this regard, $433,516 of the purchase price was allocated to future rent receivable to reflect the estimated rent receivable from the vendor. The future rent receivable in this regard had an outstanding balance of $256,528 as of December 31, 2006 and has subsequently been paid in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8 *Intangible assets*

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 12,835,697	$ (4,858,766)	$ 7,976,931
Tenant relationships	3,407,425	(1,046,667)	2,360,758
	16,243,122	(5,905,433)	10,337,689
Above market in-place leases	4,042,039	(1,420,390)	2,621,649
	$ 20,285,161	$ (7,325,823)	$ 12,959,338

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Lease origination costs	$ 10,537,496	$ (2,613,277)	$ 7,924,219
Tenant relationships	1,610,832	(368,805)	1,242,027
	12,148,328	(2,982,082)	9,166,246
Above market in-place leases	3,681,840	(911,873)	2,769,967
	$ 15,830,168	$ (3,893,955)	$ 11,936,213

Amortization of intangible assets consists of the following:

	Year Ended December 31	
	2007	2006
Lease origination costs	$ 2,245,489	$ 2,009,119
Tenant relationships	677,862	295,991
	2,923,351	2,305,110
Above market in-place leases	508,517	686,533
	$ 3,431,868	$ 2,991,643

Amortization of the above market in-place leases is charged to rentals from income properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 *Discontinued operations*

On April 20, 2007, the Trust sold its interest in 550 Saskatchewan Avenue, Portage la Prairie, Manitoba, a vacant retail property for gross proceeds of $460,000 resulting in a gain on sale of $143,676.

On August 1, 2006, the Trust sold its interest in 3223 - 10th Street, Calgary, Alberta for gross proceeds of $4,000,000 resulting in a gain of sale of $885,162. The purchaser assumed mortgages totalling $2,155,210.

The following table discloses balance sheet associated with the properties held for sale and the statement of income for properties sold and held for sale. The 550 Saskatchewan Avenue property was previously included under Retail and Manitoba for segmented reporting purposes. The 3223 - 10th Street property was previously included under Industrial and Alberta for segmented reporting purposes.

	December 31 2007	December 31 2006
Balance sheets		
Assets		
Income properties	$ -	$ 313,062
Other assets	-	691
	-	313,753
Liabilities		
Mortgage loans payable	-	-
Accounts payable and accrued liabilities	-	-
	-	-
Net investment in properties held for sale	$ -	$ 313,753

	Year Ended December 31	
	2007	2006
Statements of income		
Rentals from income properties	$ -	$ 195,419
Interest and other income	853	1,685
Expenses		
Property operating costs	3,007	65,198
Financing expense	-	71,150
Trust expense	60	8,675
Depreciation and amortization	1,748	25,337
Income, before gain on sale	(3,962)	26,744
Gain on sale	143,676	885,162
Income from discontinued operations	$ 139,714	$ 911,906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 *Acquisition asset and liability*

In accordance with the purchase and sale agreement for City Place, the vendor was responsible for the defeasance of existing debt. In this regard, the debt was assumed by 1252229 Alberta Ltd. which owns sufficient Government of Canada bonds to meet the debt obligation. The Government of Canada bonds have been placed in escrow with Computer Share Trust Company of Canada, an agent of the debt holder. In accordance with Canadian generally accepted accounting principles, the bonds and debt obligations of 1252229 Alberta Ltd. have been identified on acquisition of the property and have been included in the accounts of the Trust as HREIT Holdings 33 Corporation (formerly 2017166 Ontario Limited), the bare trustee which holds title to City Place, remains the debtor on the loan documents. The respective asset and liability will be reduced on a monthly basis at the same rate as the debt is amortized until April 1, 2010 at which time the debt will be extinguished.

11 *Mortgage loans payable*

Mortgage loans payable consists of the following:

	December 31 2007	December 31 2006
First mortgage loans secured by specific income producing properties bearing interest at fixed rates between 4.84% and 8.28% (2006 - 4.65% and 8.28%) with a weighted average interest rate of 6.21%; (2006 - 6.25%) and maturing between January 1, 2008 and February 1, 2025 (weighted average term to maturity - 4.83 years; 2006 - 5.79 years).	$297,537,654	$226,422,338
Second mortgage loans secured by specific income producing properties bearing interest at fixed rates between 5.00% and 11.00% (2006 - 6.00% and 11.25%) with a weighted average interest rate of 8.45% (2006 - 9.85%) and maturing between January 1, 2008 and July 19, 2012 (weighted average term to maturity - 1.29 years; 2006 - 1.51 years).	25,782,974	32,950,213
Third mortgage loans secured by specific income producing properties bearing interest at fixed rates at 11.00% (2006 - 11.00%) and mature on June 1, 2009.	4,000,000	5,000,000
	327,320,628	264,372,551
Transaction costs	(1,894,049)	-
Mortgage premiums	211,235	328,776
	$325,637,814	$264,701,327

The weighted average interest rate for the aggregate loan balance is 6.44% (2006 - 6.79%), and the weighted average term to maturity is 4.51 years (2006 - 5.17).

Mortgage premiums represent the difference between the actual mortgages assumed on property acquisitions and the fair value of the mortgages at the date of purchase, less accumulated amortization. Mortgage premiums are amortized over the term of the respective mortgage (Note 15).

11 *Mortgage loans payable (continued)*

Transaction costs are incremental costs that are directly attributable to the acquisition of mortgage financing and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. To December 31, 2006, transaction costs were reflected as a deferred charge (Note 5). Transaction costs are amortized over the term of the respective mortgage using the effective interest method (Note 15).

Future payments, excluding amortization of mortgage premiums and transaction costs are as follows:

Year Ending December 31	
2008	$ 75,113,270
2009	38,030,743
2010	35,579,819
2011	24,880,586
2012	51,624,742
Thereafter	102,091,468
	$327,320,628

12 *Convertible debentures*

On March 22, 2005, the Trust issued Series A convertible debentures in the amount of $6,000,000.

The debentures bear interest at 8%, mature on March 22, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on March 22 and September 22. The debentures are convertible into units at the request of the holder at any time after March 22, 2007 at a conversion price per unit of $2.55.

On June 29, 2005, the Trust issued Series B convertible debentures in the amount of $5,321,000.

The debentures bear interest at 8%, mature on June 29, 2010 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on June 29 and December 29. The debentures are convertible into units at the request of the holder at any time after June 29, 2007 at a conversion price per unit of $3.30 prior to the third anniversary; at a conversion price per unit of $3.65 in the fourth year; and at a conversion price per unit of $4.05 in the fifth year.

On March 29, 2007 and April 5, 2007, the Trust issued Series C convertible debentures in the aggregate amount of $48,300,000.

The debentures bear interest at 7.5%, mature on March 31, 2012 and are subordinate only to the mortgage loans payable. Interest is payable semi-annually on March 31 and September 30. The debentures are convertible into units at the request of the holder at a conversion price per unit of $3.05.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 *Convertible debentures (continued)*

The following schedule allocates the convertible debentures between the debt and equity components on the basis of the net present value of future interest and principal payments at an estimated cost of borrowing without conversion option as reflected in the schedule.

December 31, 2007	Cost of Borrowing	Debt	Equity	Total
Series A Convertible debentures	15 %	$ 5,238,393	$ 1,423,778	$ 6,662,171
Series B Convertible debentures	15 %	4,577,615	1,262,654	5,840,269
Series C Convertible debentures	12 %	41,140,378	8,084,048	49,224,426
		50,956,386	10,770,480	61,726,866
Transaction costs		(2,569,718)	-	(2,569,718)
		$ 48,386,668	$ 10,770,480	$ 59,157,148

December 31, 2006	Cost of Borrowing	Debt	Equity	Total
Series A Convertible debentures	15 %	$ 4,968,597	$ 1,423,778	$ 6,392,375
Series B Convertible debentures	15 %	4,347,495	1,262,654	5,610,149
		$ 9,316,092	$ 2,686,432	$ 12,002,524

The accretion of the debt component which increases the debt component from the initial carrying amount, is included in financing expense (Note 15).

Transaction costs are incremental costs that are directly attributable to issuance of convertible debentures and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. To December 31, 2006, transaction costs were reflected as a deferred charge (Note 5). Transaction costs are amortized over the term of the debenture using the effective interest method (Note 15).

13 *Intangible liabilities*

December 31, 2007	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 5,157,912	$ (2,930,936)	$ 2,226,976

December 31, 2006	Cost	Accumulated Amortization	Net book Value
Below market in-place leases	$ 4,491,911	$ (1,787,104)	$ 2,704,807

Amortization of below market in-place leases of $1,143,832 for the period ended December 31, 2007 (2006 - $1,339,521), is credited to rentals from income properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14 *Rentals from income properties*

	Year Ended December 31	
	2007	2006
Rental revenue contractually due from tenants	$ 69,284,234	$ 51,305,181
Accrued rental revenue recognized on a straight-line basis	1,063,117	1,024,628
Amortization of above market in-place leases	(508,517)	(686,533)
Amortization of below market in-place leases	1,143,832	1,339,521
	$ 70,982,666	$ 52,982,797

Rental revenue contractually due from tenants includes the recovery of property operating costs from tenants of $21,362,016 for the period ended December 31, 2007 (2006 - $16,631,840).

15 *Financing expense*

Financing costs are comprised of the following:

	Year Ended December 31	
	2007	2006
Mortgage loan interest	$ 18,735,729	$ 14,183,860
Accretion of the debt component of convertible debentures	1,408,946	432,740
Interest on debentures	3,647,367	905,680
Change in value - swap asset	(7,010)	-
Amortization of mortgage premiums	(117,541)	(112,247)
Amortization of transaction costs	895,396	-
	$ 24,562,887	$ 15,410,033

16 *Future income taxes*

The expected tax rate applicable to SIFT's is approximately equal to the expected Canadian average statutory rate of 31.5%. The effective tax rate of Consolidated Real Estate Services Inc. is approximately equal to the Alberta statutory rate of 32.12%. Income tax transactions are comprised of the following:

	Year Ended December 31	
	2007	2006
Current income tax	$ 163,973	$ 188,200
Future income tax	3,591,891	(247,800)
	$ 3,755,864	$ (59,600)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16 *Future income taxes (continued)*

The following tables reflect the components of future income taxes on the balance sheets

	December 31 2007	December 31 2006
Tax effected deductable temporary difference created as a result of the change in accounting estimate (Note 2) between accounting and tax basis of:		
Real estate investments	$ 2,843,043	$ -
Other assets	748,848	-
Future Income tax asset (Note 7)	$ 3,591,891	$ -

	December 31 2007	December 31 2006
Tax effected taxable temporary difference between accounting and tax basis of:		
Other liabilities	$ 629,200	$ 869,200
Future Income tax liability - included in accounts payable and accrued liabilities	$ -	$ -

17 *Tax bases*

The value of the income properties for income tax purposes are as follows:

	Year Ended December 31 2007	2006
Land - adjusted cost base	$ 78,083,704	$ 52,853,813
Building and fixtures - undepreciated capital cost	423,304,458	338,020,130
	$501,388,162	$390,873,943
Financing fees - undeducted reserve	$ 9,798,412	$ 9,228,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 *Distribution of income*

In accordance with the Declaration of Trust, the Trust shall issue cash distributions in an amount equal to the aggregate of:

- taxable income from operations (exclusive of taxable capital gains, net of allowable capital losses); and
- realized capital gains, net of any realized allowable capital losses for the year.

The following table reflects the minimum distribution required in accordance with the Declaration of Trust.

	Year Ended December 31 2007	Year Ended December 31 2006
Business income	$ -	$ -
Dividend income	-	400,000
Taxable capital gain	9,243	439,992
Minimum distribution required by Declaration of Trust	$ 9,243	$ 839,992
Actual distributions	$ 20,141,386	$ 18,931,533

19 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units outstanding for the period. The diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income per unit calculations are based on the following:

Income (loss) from Continuing Operations:

	Year Ended December 31 2007	Year Ended December 31 2006
Income (loss)	$ 739,992	$ (986,588)
Diluted income (loss)	$ 739,992	$ (986,588)
Weighted average number of units	71,745,488	67,568,323
Dilutive options	23,492	-
Weighted average diluted number of units	71,768,980	67,568,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

19 *Per unit calculations (continued)*

Income (loss) after Discontinued Operations:

	Year Ended December 31	
	2007	2006
Income (loss)	$ 879,706	$ (74,682)
Diluted income (loss)	$ 879,706	$ (74,682)
Weighted average number of units	71,745,488	67,568,323
Dilutive options	23,492	-
Weighted average diluted number of units	71,768,980	67,568,323

20 *Units*

During the period, the Trust issued the following trust units:

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Units	Amount	Units	Amount
Outstanding, beginning of period	67,691,485	$166,032,064	67,405,242	$165,182,172
For cash	4,166,700	10,000,080	-	-
For properties	-	-	275,000	825,000
Value associated with DRIP units	156,950	374,192	11,243	24,892
Unit issue costs	-	(1,030,553)	-	-
Units outstanding, end of period	72,015,135	$175,375,783	67,691,485	$166,032,064

Dividend Reinvestment Plan - (DRIP)
The Trust operates a Dividend Reinvestment Plan whereby, registered unit holders may reinvest distribution in additional Trust units and/or make additional optional cash payments to purchase Trust units.

Unit holders who elect to reinvest cash distributions under the DRIP will receive Units at a price (the "Average Market Price") equal to the weighted average closing price of the Units for the five trading days preceding the distribution payment date. With each reinvestment, Unitholders will receive a bonus distribution equal to 4% of the amount reinvested. Which will be reinvested in units at the Average Market Price.

Unitholders who elect to purchase additional Units by way of cash payment, will not incur any commissions, service charges of brokerage fees. Units purchased by way of additional cash payment will be purchased at the weighted average closing price of the Units for the five trading days preceding the distribution date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 *Unit option plan*

The Trust may grant options to the Trustees, senior officers, investor relations consultants and technical consultants to the Trust. The maximum number of units reserved for issuance under the unit option plan will be limited to 5% of the total number of issued and outstanding units. The Trustees shall set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the units as determined under the policies of the Exchange on the date of grant. The options will have a maximum term of five years from the date of grant.

On July 17, 2007, the Trust granted options to trustees and officers to acquire an aggregate of 900,000 units at $2.36 per unit. The options have vested and expire July 17, 2012.

The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes option pricing model using a risk-free interest rate of 4.66% over and expected life of five years with an expected volatility rate of 14.47% and an expected dividend yield of 11.62%. Compensation expense of $38,760 was recognized when the unit options were granted.

A summary of the unit options transactions are as follows:

		Units	Exercise Price
Outstanding, January 1, 2006		831,000	$ 2.61
September 5, 2006	Expired	(150,000)	2.85
September 5, 2006	Expired	(77,000)	2.00
Outstanding, December 31, 2006		604,000	
Weighted average exercise price			$ 2.63

		Units	Exercise Price
Outstanding, January 1, 2007		604,000	$ 2.63
July 17, 2007	Granted	900,000	2.36
Outstanding, December 31, 2007		1,504,000	
Weighted average exercise price			$ 2.47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22 *Related party transactions*

Related party transactions have occurred in the normal course of operations and are measured at the exchange amount which is the amount established and agreed by the related parties. Shelter Canadian Properties Limited and, its parent company, 2668921 Manitoba Ltd. are related parties of the Trust by virtue of the fact that all outstanding shares of 2668921 Manitoba Ltd. are owned by the family trust of an Officer and Trustee of the Trust.

Property management agreement
The Trust entered into a property management agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the property management agreement, Shelter Canadian Properties Limited will administer the day-to-day operations of the Trust's portfolio of income properties. The Trust pays property management fees equal to 4% of gross receipts from the income properties owned by the Trust. Shelter Canadian Properties Limited is also entitled to leasing fees on new leases of 3% to 5% of base rental payments and leasing fees on renewals of 1 1/2% to 2 1/2% of base rental payments and to tenant improvement and renovation fees equal to 5% of the total cost of such work.

The following schedule reflects fees incurred by the Trust for management services:

	Year Ended December 31	
	2007	2006
Property management fees	$ 1,718,583	$ 1,258,689
Leasing fees	19,463	97,452
Renovation fees	25,688	-
	$ 1,763,734	$ 1,356,141

Included in accounts payable is $327,475 representing unpaid management and leasing fees owing to Shelter Canadian Properties Limited at December 31, 2007 (2006 - $409,117).

Services agreement
The Trust entered into a services agreement, for an initial term expiring February 23, 2010, with Shelter Canadian Properties Limited. Under the services agreement, Shelter Canadian Properties Limited provides the Trust management and support services for the administration of the day-to-day activities of the Trust.

Initially, consideration under the services agreement was composed of options granted to Shelter Canadian Properties Limited to acquire an aggregate of 50,000 units at $0.50 per unit. The fair value of the unit options granted is estimated on the date of grant using the Black-Scholes options pricing model using a risk-free interest rate of 3.63% over the expected life of five years with an expected volatility rate of 25.58% and an expected dividend yield of 11.28%. On February 23, 2005, the 50,000 options granted to Shelter Canadian Properties Limited were exercised.

Unit-based compensation in regard to the options is being amortized over the term of the services agreement. Unit-based compensation expense of $19,620 for the period ended December 31, 2007 (2006 - $19,620), relating to options issued under the services agreement is included in trust expenses.

For the period from January 1, 2006 to March 31, 2008, fees for services rendered by Shelter Canadian Properties Limited to the Trust pursuant to the services agreement will be calculated at 0.3% of gross book value, excluding cash. Service fee expense of $1,353,400 for the period ended December 31, 2007 (2006 - $965,286) is included in trust expenses. The above noted fee arrangement has been extended on a month to month basis.

22 *Related party transactions (continued)*

Consolidated Real Estate Services Inc. (CRESI)
Shelter Canadian Properties Limited provides executive management services and other assistance to CRESI and receives an annual cost recovery fee of $150,000. Cost recovery of $150,000 for the period ended December 31, 2007 (2006 - $150,000) is included in property management costs.

Property acquisitions
As of December 31, 2007, the investments of the Trust include the properties located at 846, 850 and 854 Marion Street, 365 Hargrave Avenue, a 50% interest in 220 Portage Avenue and five parking lots with a combined 686 parking stalls. On the date of acquisition of the properties, the parent corporation of Shelter Canadian Properties Limited, 2668921 Manitoba Ltd., held a 20% ownership interest in the 846, 850 and 854 Marion Street property and Shelter Canadian Properties Limited, held an 8% ownership interest in the 365 Hargrave Avenue property; the 50% interest in the 220 Portage Avenue property; and five parking lots.

23 *Financial instruments and risk management*

Fair values
Financial instruments include cash, amounts receivable, future rent receivable, interest rate swap, acquisition asset, accounts payable, mortgage loans payable, the debt component of convertible debentures payable, and acquisition liability. Except for the acquisition asset, mortgage loans payable, the debt component of convertible debentures, and the acquisition liability, the carrying values of these financial instruments approximate fair value due to the short term nature of financial instruments.

The carrying value of the mortgage loans payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of mortgage loans payable has been estimated based on the current market rates for mortgages with similar terms and conditions. The estimated fair value of mortgage loans payable for the period ended December 31, 2007 is $326,141,037 (December 31, 2006 - $265,018,790).

The carrying value of the acquisition asset and acquisition liability is equal to the unamortized principal of a loan which has been assumed by a third party. Based on the discounted cash flow of funds which will flow to or from the Trust, the fair value of the acquisition asset and liability is nil.

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The carrying value of the debt component of convertible debentures payable for the period ended September 30, 2007 and December 31, 2006 approximates fair value.

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23 *Financial instruments and risk management (continued)*

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its tenants. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Company, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

- Fluctuations in interest rate creates a cash flow risk which is minimized by obtaining long term mortgages and arranging long term leases. There is a risk that interest rates will fluctuate subsequent to the date the Trust commits to a fixed interest rate with the lender. Obtaining long-term mortgages with fixed interest rates minimizes cash flow risk. The Declaration of Trust restricts mortgage loans on income properties from being greater than 75% of the appraised value of the income properties. As at December 31, 2007, the total of mortgage loans payable is 53.0% (2006 - 60.8%) of the total estimated current value of income properties. The Trust may enter into interest rate swap contracts to modify the interest rate of outstanding debt without an exchange of the underlying principal amount.

- Credit risk arises from the possibility that tenants may experience financial difficulty and may not be able to fulfill their lease commitments. The risk of credit loss is mitigated by leasing policies which require that the financial viability of prospective tenants are investigated in order to help ensure that the tenant mix is comprised of tenants with credit worthy covenants. The risk of credit loss is also mitigated by ensuring that the tenant mix is diversified and by limiting the exposure to any one tenant. No single tenant accounted for 10% or more of the rentals from income properties. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific tenants, historical trends and other information.

The Trust is also exposed to property management operating risk which arises from the possibility that the management company will lose contracts as a result of property sale or other reasons. Property management operating risk is mitigated by seeking long-term contracts from major commercial clients and by the ability of the company to secure contracts through its relationship with the Trust and other business partners/associates.

24 *Segmented financial information - continuing operations*

The assets are comprised in and revenue is derived from the operation of light industrial, office and retail properties as well as the operations of a property management company. Schedule 2 summarizes the segmented reporting by operating segments.

The assets are located in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories. Schedule 3 summarizes the segmented reporting by geographic region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

25 *Commitments and contingencies*

In accordance with the purchase and sale agreement for City Place, the vendor is entitled to a purchase price adjustment equal to the amount by which net operating income for the year ending November 30, 2008 from the 551 stall parkade and two surface parking lots exceed $850,000 multiplied by 10. The contingent consideration is due June 30, 2009 and cannot be reasonably estimated at the balance sheet date.

In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determinable, management believes that any such outcome will not be material.

26 *Subsequent Events*

Normal Course Issuer Bid:
On January 16, 2008, HREIT announced its intention to make a normal course issue bid over the twelve-month period ending January 20, 2009 for up to 3,600,119 units, representing 5% of the issued and outstanding units as the date of the announcement, as appropriate opportunities arise from time to time. The normal course issuer bid is being made in accordance with the policies of the Toronto Stock Exchange. The Trust has repurchased 33,607 units for aggregate consideration of $69,365 representing an average per unit price of $2.064.

HUNTINGDON REAL ESTATE INVESTMENT TRUST
Summary of Acquisitions — Schedule 1

Real Estate Portfolio -December 31, 2007

Property	Location	Total Cost (1)	Acquisition Date	Leasable Area (Sq. Ft.)	Assumption of Mortgage
2007 acquisitions					
Light Industrial					
Airport Place (2)	Winnipeg, MB	$ 7,446,233	March 2007	324,820	$ 6,296,233
7001 - 96 Street	Grande Prairie, AB	7,846,800	March 2007	33,280	5,672,000
4080 - 77 Street	Red Deer, AB	8,017,300	March 2007	33,280	5,792,000
35 Martin Way	Brooks, AB	3,487,900	March 2007	28,400	2,511,000
1950 Sargent	Winnipeg, MB	2,778,175	March 2007	37,887	
61 - 155 Paramount Rd (2)	Winnipeg, MB	2,938,389	March 2007	82,049	1,921,543
60 - 94 Hoka Street (2)	Winnipeg, MB	925,000	March 2007	26,738	641,847
1271 Sargent	Winnipeg, MB	2,632,052	June 2007	40,893	
1855 Sargent	Winnipeg, MB	2,549,858	August 2007	77,500	1,940,000
2595 McGillivray (3)	Winnipeg, MB	3,679,487	August 2007	73,808	3,200,000
1695 Sargent (3)	Winnipeg, MB	4,226,286	August 2007	57,860	3,008,920
Office					
67 Scurfield	Winnipeg, MB	3,897,418	June 2007	25,945	-
Winnipeg Parking Lots (4)	Winnipeg, MB	8,754,759	July 2007	-	4,818,851
220 Portage (2)	Winnipeg, MB	10,271,272	July 2007	84,922	6,554,006
365 Hargrave	Winnipeg, MB	8,814,277	July 2007	71,784	5,712,370
Century Business Park (3) (4)	Winnipeg, MB	9,159,621	August 2007	70,254	5,530,000
1336/1340 Sargent (3) (4)	Winnipeg, MB	3,388,489	August 2007	42,092	2,581,850
1030 & 1040 Empress (3) (4)	Winnipeg, MB	3,124,914	August 2007	33,478	2,387,730
220 Cree (3)	Winnipeg, MB	1,168,223	August 2007	18,000	-
555 Madison (3)	Winnipeg, MB	2,788,867	August 2007	18,462	1,470,000
895 Waverley	Winnipeg, MB	5,088,195	December 2007	34,435	3,993,742
Total Properties		102,983,515		1,215,887	64,032,092
Properties under development					
1750 Dugald	Winnipeg, MB	3,218,063	September 2007	-	-
Lot 2 Flin Flon	Flin Flon, MB	324,664	September 2007	-	-
Total cost - 2007 acquisitions		106,526,242		1,215,887	64,032,092
2006 acquisitions					
Light Industrial					
505 Industrial Drive	Milton, ON	16,495,805	May 2006	258,960	12,000,000
846, 850, 854 Marion Street (4)	Winnipeg, MB	2,756,497	June 2006	82,851	2,004,000
Retail					
Douglasview Centre	Calgary, AB	3,617,648	March 2006	17,104	2,700,000
Airport Road	Yellowknife, NWT	5,310,423	June 2006	15,474	3,710,000
Office					
Saskatchewan Place	Regina, SK	7,429,365	February 2006	82,321	2,906,258
280 Broadway Avenue	Winnipeg, MB	11,217,828	March 2006	115,354	7,400,000
Medical Arts Building	Winnipeg, MB	14,342,162	April 2006	109,104	9,660,000
City Place	Winnipeg, MB	74,916,483	June 2006	453,186	58,000,000
Total cost - 2006 acquisitions		136,086,211		1,134,354	98,380,258
Total cost - 2005 acquisitions		262,123,422		3,060,174	106,226,957
Total cost		$ 504,735,875		5,410,415	$ 268,639,307

(1) The total acquisition cost reflects all costs including the purchase price, legal fees, land transfer fees and consulting fees, incurred in the acquisition of the property.

(2) An undivided interest in the property has been acquired (Airport Place - 50%; 61-155 Paramount Rd - 25%; 60-94 Hoka Street - 25%; 220 Portage Ave - 50%). The leasable area and mortgage information reflect the pro rata portion of the Trust.

(3) Properties are also encumbered by a vendor take back mortgage in the aggregate amount of $4,300,000.

(4) Multi-property acquisitions include 119/130 Plymouth Avenue (two properties); the Chemainus Properties (four properties), Marion Street Business Park (three properties), Century Business Park (three properties), 1336/1340 Sargent (two properties), 1030/1040 Empress (two properties) and Winnipeg Parking Lots (five properties).

(5) The analysis excludes the following properties acquired and subsequently sold.

Property	Location	Acquisition Cost	Acquisition Date	Gross sale proceeds	Date Sold
550 Saskatchewan	Portage la Prairie, MB	$ 421,565	August 2005	460,000	April 2007
3223, 10th Street	Calgary, AB	3,107,118	December 2005	4,000,000	August 2006
		3,528,683		4,460,000	

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 2

Segmented Information by Property Type

Year Ended December 31, 2007:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Gross leasable area (square feet)	1,958,816	1,641,449	1,810,150	-	-	-	- 5,410,415
Percentage	36.2 %	30.3 %	33.5 %				100.0 %
Gross leasable area (square feet)	-	-	26,259,758	26,259,758	-	-	26,259,758
Property management revenue	-	-	-	-	2,994,963	-	2,994,963
Interest and other income	106,354	357,515	326,834	790,703	13,795	647,318	1,451,816
Operating costs	2,773,443	15,614,121	10,466,493	28,854,057	2,712,031	-	31,566,088
Operating income	(2,667,089)	(15,256,606)	16,120,099	(1,803,596)	296,727	647,318	(859,551)
Financing expense	3,337,155	7,613,765	7,255,648	18,206,568	-	6,356,319	24,562,887
Trust expenses	79,017	131,485	82,108	292,610	71,945	1,995,648	2,360,203
Amortization	3,536,970	7,715,964	8,436,402	19,689,336	266,803	-	19,956,139
Income (loss) from continuing operations before taxes	2,280,357	2,104,500	345,942	4,730,799	(42,022)	(7,704,649)	(3,015,872)
Total assets	95,733,898	249,545,262	205,446,969	550,726,129	2,947,598	5,976,993	559,650,720

Year Ended December 31, 2006:

	Light Industrial	Office	Retail	Property Total	Property Management	Trust	Total
Gross leasable area (square feet)	1,142,301	1,242,077	1,810,150	-	-	-	- 4,194,528
Percentage	27.2 %	29.6 %	43.2 %				100.0 %
Rentals from income properties	6,427,955	21,550,252	25,004,590	52,982,797	-	-	52,982,797
Property management revenue	-	-	-	-	3,517,390	-	3,517,390
Interest and other income	31,613	247,043	361,743	640,399	19,661	170,601	830,661
Operating costs	1,636,097	10,164,108	10,085,067	21,885,272	2,680,953	-	24,566,225
Operating income	4,823,471	11,633,187	15,281,266	31,737,924	856,098	170,601	32,764,623
Financing expense	1,391,195	4,760,149	7,256,844	13,408,188	-	2,001,845	15,410,033
Trust expenses	16,248	93,746	149,676	259,670	9,545	1,845,542	2,114,757
Amortization	1,698,629	5,534,590	7,974,137	15,207,356	792,269	167,196	16,166,821
Income (loss) from continuing operations before taxes	1,717,399	1,244,702	(99,391)	2,862,710	54,284	(3,843,982)	(926,988)
Total assets	54,909,843	198,756,051	198,360,727	452,026,621	3,516,348	1,851,601	457,394,570

HUNTINGDON REAL ESTATE INVESTMENT TRUST

Schedule 3

Segmented Information by Geographic Region

Year Ended December 31, 2007:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Gross leasable area (square feet)	-	352,266	35,397	2,994,099	107,805	1,631,366	289,482	-	5,410,415
Percentage	-	6.5 %	0.7 %	55.3 %	2.0 %	30.1 %	5.4 %	-	100.0 %
Rentals from income properties	-	7,125,955	574,606	37,486,936	4,110,448	18,732,723	2,951,998	-	70,982,666
Property management revenue	2,994,963	-	-	-	-	-	-	-	2,994,963
Interest and other income	13,795	35,781	1,076	308,317	29,572	366,917	49,040	647,318	1,451,816
Operating costs	2,712,031	1,598,706	123,396	17,434,663	1,682,523	6,459,459	1,555,310	-	31,566,088
Operating income	296,727	5,563,030	452,286	20,360,590	2,457,497	12,640,181	1,445,728	647,318	43,863,357
Financing expense	-	2,252,653	171,431	8,566,236	656,154	6,107,819	452,275	6,356,319	24,562,887
Trust expenses	71,945	16,203	385	186,345	8,504	79,270	1,903	1,995,648	2,360,203
Amortization	266,803	1,561,219	156,357	10,251,668	542,043	6,522,520	655,529	-	19,956,139
Income (loss) from continuing operations before taxes	(42,021)	1,732,955	124,113	1,356,341	1,250,796	(69,428)	336,021	(7,704,649)	(3,015,872)
Total assets	2,947,598	54,211,815	4,141,530	299,606,076	18,529,530	160,266,767	13,970,411	5,976,993	559,650,720

Year Ended December 31, 2006:

	Alberta Management	Alberta Property	British Columbia	Manitoba	Northwest Terrorities	Ontario	Saskatchewan	Trust	Total
Gross leasable area (square feet)	-	257,306	35,397	1,873,172	107,805	1,631,366	289,482	-	4,194,528
Percentage	-	6.1 %	0.8 %	44.7 %	2.6 %	38.9 %	6.9 %	-	100.0 %
Rentals from income properties	-	4,711,870	550,638	22,757,093	3,917,095	18,379,295	2,666,806	-	52,982,797
Property management revenue	3,517,390	-	-	-	-	-	-	-	3,517,390
Interest and other income	19,661	42,234	1,031	358,172	15,647	195,993	27,322	170,601	830,661
Operating costs	2,680,953	1,396,311	127,499	10,516,816	1,707,824	6,699,298	1,437,524	-	24,566,225
Operating income	856,098	3,357,793	424,170	12,598,449	2,224,918	11,875,990	1,256,604	170,601	32,764,623
Financing expense	-	1,185,791	98,801	5,334,113	577,467	5,827,085	384,931	2,001,845	15,410,033
Trust expenses	9,545	18,401	2,350	47,969	29,997	153,713	7,240	1,845,542	2,114,757
Amortization	792,269	1,293,740	169,123	6,425,580	512,447	6,068,496	737,970	167,196	16,166,821
Income (loss) from continuing operations before taxes	54,284	859,861	153,896	790,787	1,105,007	(173,304)	126,463	(3,843,982)	(926,988)
Total assets	3,516,348	35,716,680	4,296,135	215,216,705	18,808,183	163,522,632	14,466,286	1,851,601	457,394,570

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of HREIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. As the appointed Administrator of HREIT, Shelter Canadian Properties Limited has the right to appoint one trustee.

Administrator of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of a Services Agreement, to administer the daily affairs of HREIT and to perform the accounting and reporting functions of HREIT.

Property Management

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Property Management Agreement, to act as the Property Manager for all of the income properties in the HREIT portfolio.

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Listings

Toronto Stock Exchange (TSX)
Unit trading symbol: HNT.UN
Debenture trading symbol: HNT.DB.C

Unitholder and Investor Contact

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